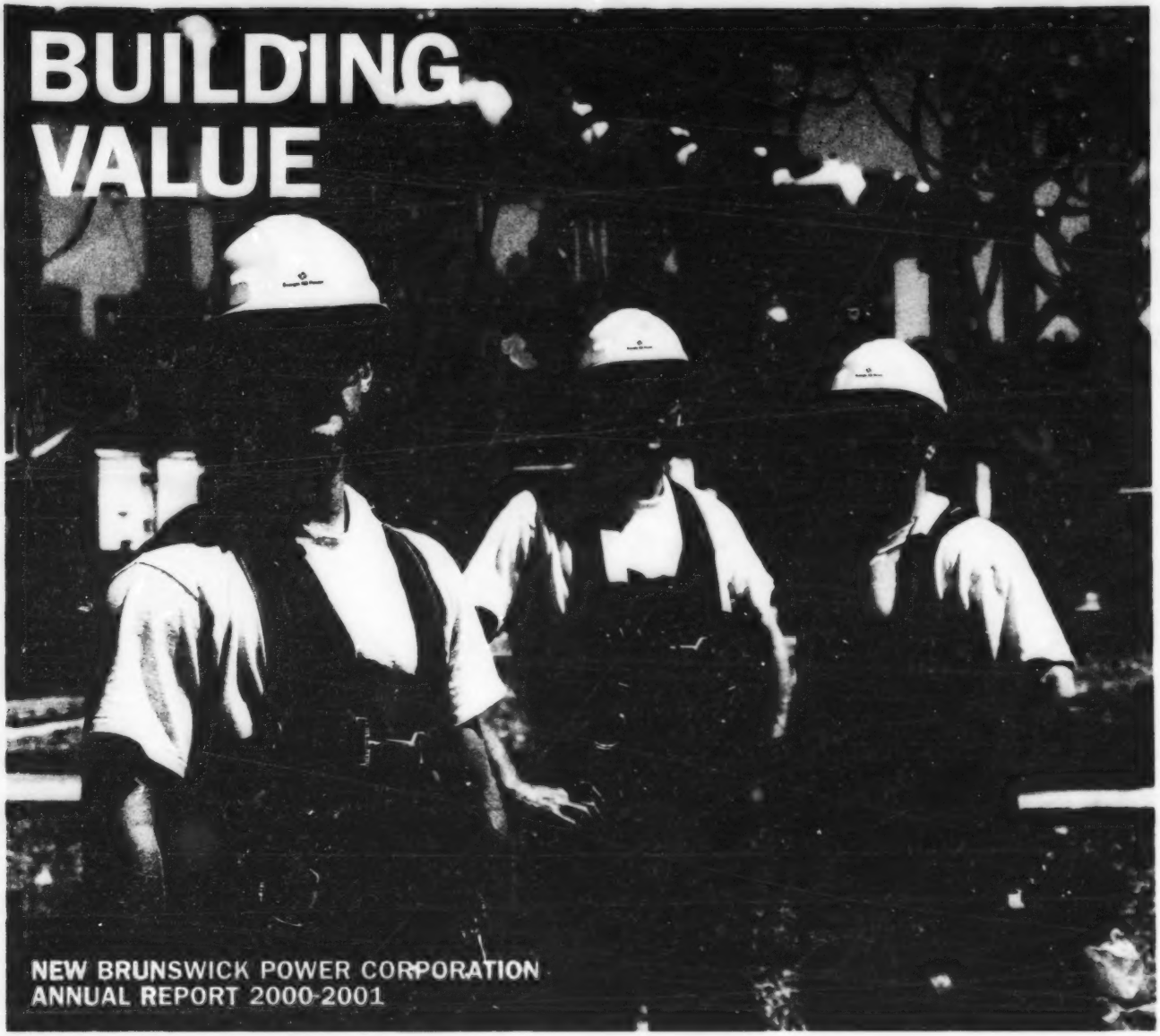
BUILDING VALUE



NEW BRUNSWICK POWER CORPORATION
ANNUAL REPORT 2000-2001

Énergie NB Power

Building Value

NB Power provides New Brunswickers with safe, dependable and economic electricity as it builds value for its owner, customers and employees alike. This fulfils the legislated mission to "provide for the continuous supply of energy adequate to the needs and future development of the province and to promote economy and efficiency in the generation, distribution, supply, sale and use of power". As we move towards a deregulated market, our business objectives and strategies reflect NB Power's commitment to its mission, vision and values:

FOR THE OWNER
The people and Province of New Brunswick, who benefit from our success.

FOR CUSTOMERS
The key stakeholder group, for whom reliability, quality and affordability are fundamental.

FOR EMPLOYEES
Our greatest energy source, through job fulfilment and the satisfaction and benefits that come from working in a modern and dynamic organization.

Vision

To be a valued provider of electrical energy in the markets we serve through the commitment of our people, continuous improvement, respect for the environment and a sustained focus on safety and customer satisfaction.

Corporate Values

Safety
Service Excellence
Innovation
Openness and Honesty
Personal Accountability

TABLE OF CONTENTS

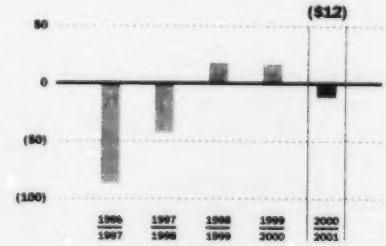
1 FINANCIAL HIGHLIGHTS
CORPORATE PROFILE
CHAIRMAN'S MESSAGE
PRESIDENT AND CEO'S MESSAGE
SENIOR MANAGEMENT
BUSINESS DEVELOPMENT
REVIEW OF ACTIVITIES GENERATION
REVIEW OF ACTIVITIES NUCLEAR
10-19 REVIEW OF ACTIVITIES TRANSMISSION
REVIEW OF ACTIVITIES DISTRIBUTION
24-26
27-35 MANAGEMENT DISCUSSION AND ANALYSIS
MANAGEMENT REPORT AND AUDITOR'S REPORT
CONSOLIDATED FINANCIAL STATEMENTS
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
STATISTICAL OVERVIEW
55-57 CORPORATE GOVERNANCE
59 SHAREHOLDER INFORMATION

Highlights

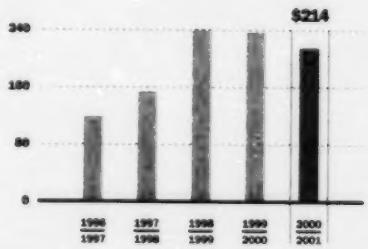
(in millions of dollars)	2000-2001	1999-2000	1998-1999	1997-1998	1996-1997
FINANCIAL PERFORMANCE					
Income (loss) before transfers and write-off	$ (12)	$ 17	$ 18	$ (43)	$ (87)
Income (loss) before write-off	$ (12)	$ 17	$ 27	$ (21)	$ (19)
Net income (loss)	$ (12)	$ 17	$ (423)	$ (21)	$ (19)
Operating cash flow	$ 214	$ 237	$ 239	$ 154	$ 119
Free cash flow	$ 114	$ 197	$ 189	$ 67	$ 68
Reduction in net debt*	$ 23	$ 234	$ 123	$ 43	$ 53
FINANCIAL RATIOS AND PERCENTAGES					
Operating margin	23%	28%	30%	26%	25%
Operating cash flow/capital expenditures	1.84x	2.56x	3.63x	2.67x	1.77x
Debt/capital	100%	99%	100%	89%	89%
Interest coverage**	.96x	1.06x	1.06x	0.86x	0.72x
KEY OPERATING FACTORS					
Hydro net generation***	88.6%	113.0%	100.9	88%	107%
Point Lepreau Generating Station net capacity factor	65.1%	72.1%	83.6%	66.0%	62.7%
Canadian dollar – March 31st	$0.634	$0.688	$0.663	$0.706	$0.722
Heavy fuel oil price ($US/bbl average)	$20.28	$16.70	$ 9.76	$14.12	$15.88

* Free cash flow after foreign exchange adjustment to US debt on the balance sheet / ** Based on income (loss) before transfers and write-off / *** Percentage of long-term average

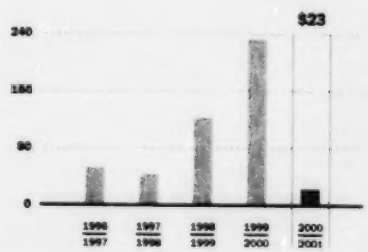
INCOME (LOSS) BEFORE TRANSFERS AND WRITE-OFF
(in millions of dollars)



OPERATING CASH FLOW
(in millions of dollars)

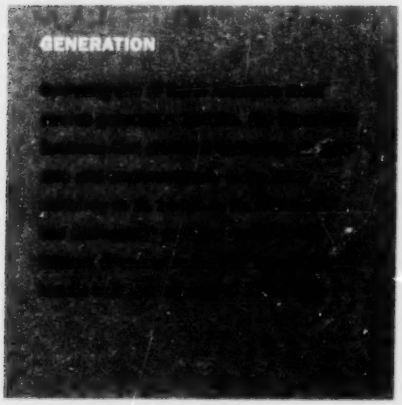


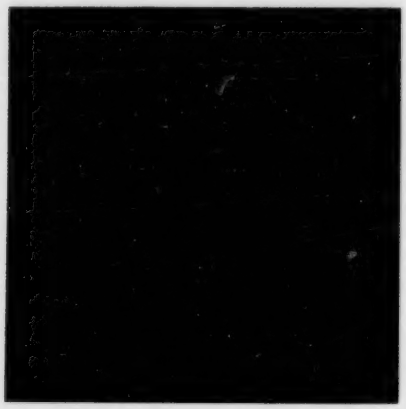
REDUCTION IN NET DEBT
(in millions of dollars)

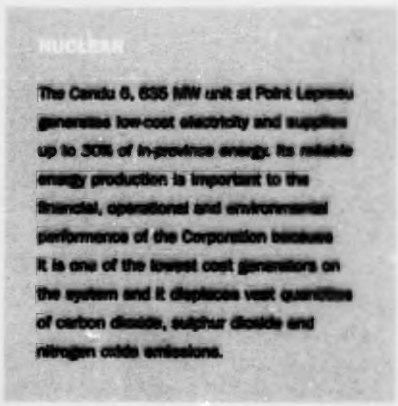


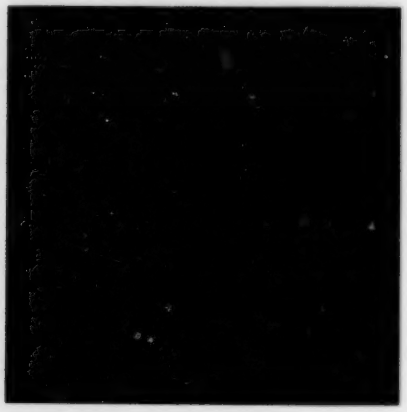
NB Power is a Crown Corporation with the legislated mission to provide for the electricity needs of the Province of New Brunswick. The largest electric utility in Atlantic Canada, NB Power operates one of North America's most diverse generation and interconnected transmission systems. Economic generation from hydro, oil, nuclear, coal, and Orimulsion® powered facilities is reliably delivered to 353,724 direct and indirect customers through a network of 32,459 km of power lines and 298 substations and terminals.

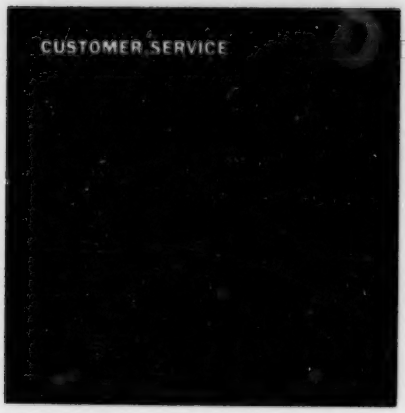
NB Power is committed to providing safe, reliable and economic electricity while responding to the unique needs of residential, commercial, industrial and export customers.

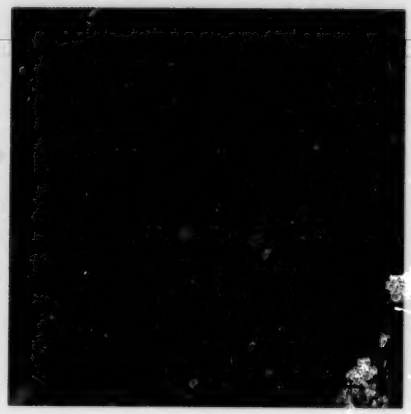





NUCLEAR
The Candu 6, 635 MW unit at Point Lepreau generates low-cost electricity and supplies up to 30% of in-province energy. Its reliable energy production is important to the financial, operational and environmental performance of the Corporation because it is one of the lowest cost generators on the system and it displaces vast quantities of carbon dioxide, sulphur dioxide and nitrogen oxide emissions.







CHAIRMAN'S MESSAGE

NB Power has significantly improved its operational and financial performance during the past several years. This has positioned the Corporation to benefit from changes in the provincial electricity sector and opportunities in the regional electricity market. We are poised for an exciting new chapter in our Corporation's development.

Corporate Performance

NB Power's financial results in 2000-2001 were marked by a net loss of $12 million due to an unplanned outage at the Point Lepreau Generating Station, rising fuel prices and a one time charge for NB Coal. This was a disappointment given the progress made in stabilizing net income in the previous two fiscal years. At the same time, other important indicators—operating measures and free cash flow—continue to demonstrate the sustained improvement indicative of our successful business operations.

NB Power competes in the most capital intensive sector of the economy and significant debt is required to build generation and transmission facilities. As a Crown Corporation, our debt is financed through borrowing that is guaranteed by the Provincial Government and it is recovered from customers over long periods of time. Opportunities for debt reduction must be seized with focus and determination. I am pleased to report that over the past five years, debt has been paid down by $476 million. Also in this period, capital investments totalled $415 million. Both of these indicators – a combined $891 million of debt reduction and capital investments – were financed completely by cash flow from business operations.

Provincial Energy Policy

In January 2001, the Provincial Government released its **White Paper – New Brunswick Energy Policy 2000-2010** which presented a managed transition to the restructuring of the electricity sector. The Provincial Government is currently examining options for the future of NB Power. Five criteria have been established to evaluate the various options: customer rates, impact on provincial finances into the future, economic development, reliability and safety, and environmental protection. The evaluation will be finalized by the end of the 2001. This will complete a comprehensive and open consultation process on the structure of the electricity sector in New Brunswick.

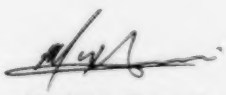
Governance

An issue that is closely related to the structure of the electricity sector in New Brunswick is the relationship between NB Power and its owner, the Provincial Government. NB Power was mandated by the Provincial Government to conduct operations through sound business practices, a change enacted in the *Electric Power Act*. Since that legislated mandate, the Board of Directors and Executive have worked hard to make this model successful for the benefit of Corporation, the Province of New Brunswick and our customers.

Clear legislated direction has been of great assistance as we have moved quickly to improve business operations and prepare the Corporation for deregulation and competition. Our corporate governance structure, explained on pages 55-57 of this report, has been strengthened. A clear business mandate has enabled Mr. Hankinson and his Executive team to implement substantial changes to the Corporation that will result in lasting benefits.

I want to commend the Executive, management and employees of the Corporation. Facing significant changes in their industry and even greater changes in their day-to-day operations, employees have responded very positively. Their performance, detailed throughout this report, reflects very well on our Corporation and speaks to the promise of the future. I also want to thank the members of the Board of Directors for their dedication to public service and commitment to NB Power.

As NB Power continues to build on its success, the benefits are enjoyed by our owner, the Province of New Brunswick, and our customers.



Max Lewis, Chairman

PRESIDENT AND CEO'S MESSAGE

Financial Performance

NB Power recorded a loss of $12 million in 2000-2001 compared to a net income of $17 million in 1999-2000. There were two reasons for the loss. First, late in the fiscal year, an unplanned outage at the Point Lepreau Nuclear Generating Station cost the Corporation $27 million in expenses and lost export sales. Second, a $12 million one-time charge was taken at NB Coal Limited for early retirement expenses and a write-down of surplus equipment.

Despite the loss, operating results demonstrated strong performance during the year. Business operations generated $214 million of operating cash flow which funded capital expenditures of $118 million. Free cash flow was $114 million, and after a sizeable foreign exchange adjustment due to the decrease in the value of the Canadian dollar, debt was reduced by $23 million.

NB Power's financial improvement is being sustained. Over five years, funds from operations totalling $635 million were targeted towards debt reduction. NB Power's debt peaked in December 1995 at $3.4 billion and has since been reduced to $2.9 billion.

Debt reduction has been an important achievement as NB Power faces the prospect of refurbishing its generating capacity and expanding its transmission capability.

Operating Performance

NB Power's business unit structure has enhanced our ability to set performance targets, measure results and take corrective actions where necessary.

The conventional Generation Business Unit met its performance target for unit availability. Improved planning and work procedures reduced the time to complete maintenance outages. Besides meeting record in-province customer demand for electricity, the high level of station availability contributed to successful export sales. Programs to improve efficiencies, streamline maintenance practices and optimize staffing levels continued to strengthen the cost structure of the business unit.

The 27-day unplanned outage late in the fiscal year reduced the capacity factor at the Point Lepreau Nuclear Generating Station to 65.1%. Prior to that, an extensive planned maintenance outage was completed safely and ahead of schedule. During the year, the station received separate reactor and solid waste facility license renewals from the federal regulator. Staff have made progress in improving safety programs, work practices and business planning – each is an important factor that contributes to safe and predictable operations at the station.

During the fiscal year, transmission and distribution functions were separated. The Transmission Business Unit assumed responsibility for transmission assets and power system operations, while the five Distribution service regions were combined with the Customer Service and Marketing Business Unit to form the Customer Service Business Unit. By consolidating these service functions, we have the appropriate structure in place to focus on transmission business development and improving customer service.

The new business unit structure for Transmission better positions NB Power for open access to regional transmission networks and facilitates opportunities for energy trading. A major asset renewal program will continue to improve transmission system reliability. The realignment of Customer Service will allow for improved customer service as all points of contact with customers are now combined. Both business units have significantly improved their safety performance.

Business Development

During the year, the Board of Directors approved a business development plan. NB Power's priorities are to provide reliable electricity, meet environmental standards and continue rate stability, all to benefit our customers. The development plan proposes an investment program that addresses business challenges related to ageing facilities, interconnection capacity, environmental standards and the evolving energy marketplace. Investment analysis has identified three potential projects; the refurbishments of the Point Lepreau and Coleson Cove generating stations and the construction of a second international power line to New England.

The Board has approved expenditures for detailed feasibility studies of these development projects. Preliminary engineering and project costing is underway in order to make final decisions.

To enhance performance improvement, NB Power has placed substantial emphasis on business risk management. The Corporation and each business unit have identified risks affecting operations and financial results and implemented mitigation plans. During 2000-2001, the Corporation's risk profile was updated resulting in the identification or reprioritization of the following business risk factors:

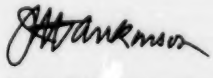
- Export markets – maintain and expand access to export markets
- Point Lepreau Generating Station refurbishment – effective management of refurbishment project
- Coleson Cove Generating Station refurbishment – effective management of refurbishment project
- Leadership – attracting, developing, retaining strong leaders and deployment to high priority areas
- Generation reliability – due diligence in maintaining generation reliability
- Transmission reliability – due diligence in maintaining transmission system reliability

Senior Management and Project Director Responsibilities

During the fiscal year, there were significant changes to senior management responsibilities. Archie Gilliss, Senior Vice President – Operations, retired in 2000. Mr. Gilliss made a significant contribution to NB Power and held senior positions in all operational areas during his career. The creation of the new position of Vice President – Regulatory, assumed by Ken Little, reflects the increasing regulatory activity resulting from development activities. Jim Brogan was appointed to the new position of Vice President – Generation (Conventional). Bob Crawford was appointed General Manager – Customer Service and under the new structure he is responsible for service delivery. Project Directors were appointed for the Point Lepreau and Coleson Cove refurbishments and the second New England tie line project.

Shared Priorities

NB Power's operating and financial performance has created a sound foundation for business development. Our business operations are more efficient and our debt has been reduced significantly. This progress will complement the investment program necessary to refurbish our generating assets and enhance our export capabilities. The result will be greater reliability, rate stability and improving environmental performance – these are important priorities that NB Power shares with our customers.

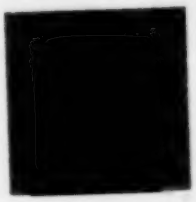


James F. Hankinson, President and CEO

SENIOR MANAGEMENT

ANDREW CORMIER
VICE PRESIDENT, PERFORMANCE IMPROVEMENT AND PRESIDENT, NB COAL

PETER DYKEMAN, Q.C.
CORPORATE SECRETARY AND GENERAL COUNSEL



SHARON MACFARLANE
VICE PRESIDENT, FINANCE AND INFORMATION SYSTEMS

PAUL THÉRIAULT
VICE PRESIDENT, HUMAN RESOURCES AND ADMINISTRATION

MARCELLA LEBLANC
DIRECTOR, PUBLIC AFFAIRS

KENNETH LITTLE
VICE PRESIDENT, REGULATORY

STEWART MACPHERSON
VICE PRESIDENT, CORPORATE PLANNING

BUSINESS DEVELOPMENT

With the tabling of the Provincial Government's **White Paper – New Brunswick Energy Policy** in the Legislative Assembly in January 2001, NB Power was able to complete its business development plan.

The new Provincial Government energy policy outlines a managed restructuring of the electricity sector from the current monopoly structure to a more competitive environment. The implementation of non-utility generation, wholesale competition for municipal utilities and retail competition for large industries is scheduled for April 2003.

The objectives of NB Power's business plan are to ensure that future development satisfies criteria for:

- reliable electricity supply
- evolving environmental standards
- stable electricity rates

During the year, detailed feasibility studies continued on three development projects which offer significant business and operational advantages to the Corporation. Preparatory work on these projects is focused on regulatory approvals, engineering, costing and design studies, and supplier negotiations.

The operation of the 1004 MW oil-fired Coleson Cove Generating Station beyond 2005 will require capital investment in order to meet new environmental regulations. A station refurbishment would include the addition of flue gas desulphurization equipment to significantly reduce sulphur dioxide emission rates, catalytic reduction equipment to reduce nitrogen oxide emission rates and a flue gas precipitator to reduce particulate emission rates. Lower fuel costs from utilizing Orimulsion® at the station would fund the addition of the modern environmental protection equipment. Orimulsion® has been successfully used at the Dalhousie Generating Station since 1994.

The Point Lepreau Generating Station supplies up to 30% of the NB Power's generation at a low cost. The station is a vital component of carbon dioxide and sulphur dioxide management initiatives because it does not contribute to these emissions. A technical and economic review of Point Lepreau by Hagler Bailley determined that station refurbishment in the 2006-2008 period may be desirable depending on refurbishment costs and the achievement of a high capacity factor over the station's extended life.

NB Power and Atomic Energy of Canada Limited have begun a two-year refurbishment assessment program to define the technical scope for refurbishment. Following the assessment, the costs and benefits of refurbishment will be compared with other development opportunities to determine the most viable option for NB Power. If the decision to refurbish Point Lepreau is made, NB Power intends to enter into an operating risk and benefits sharing arrangement with Atomic Energy of Canada Limited.

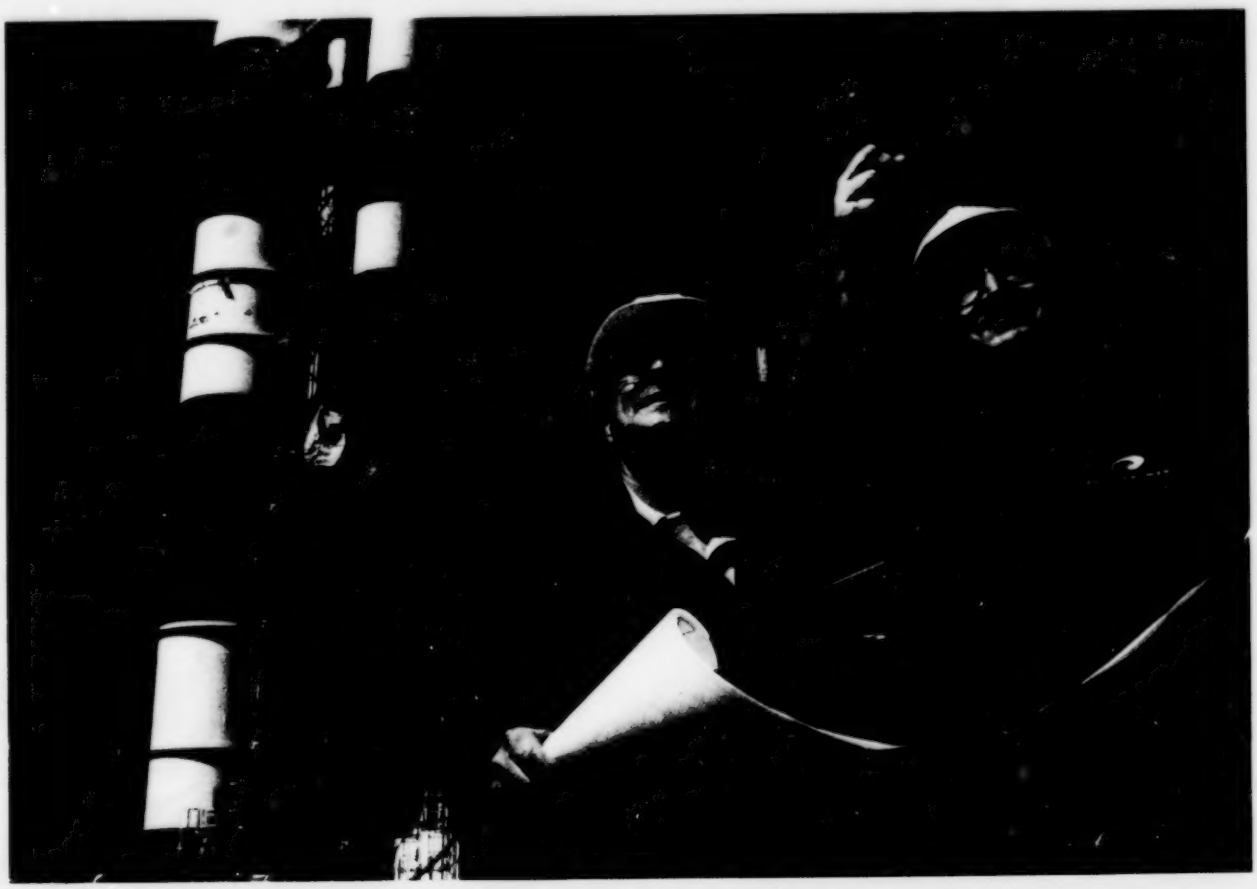
Opportunities for increased sales to the New England electricity market could be further enhanced with the construction of a second New England interconnection. The 345 kV transmission line and interconnection with Maine would be utilized for import and export opportunities. This project, planned for completion by 2003, would increase the value of NB Power's transmission system and facilitate development initiatives identified in the Provincial Government energy policy.

NB Power is examining other development options which are each in a preliminary stage. These include a marine transmission project, known as Neptune, to the New England electricity market. Based on the U.S. Federal Energy Regulatory Commission Order 2000, NB Power is exploring regional transmission organization opportunities with neighbouring utilities. Other opportunities for electricity generation from renewable resources, with the associated carbon dioxide emissions offsets, are being explored.

NB Power has begun work on public policy issues related to the Provincial Government's **White Paper – New Brunswick Energy Policy**. These include:

- an open access transmission tariff including ancillary services and stranded cost recovery
- a "standard offer service" for customers who do not select a competitive supplier
- rate proposals regarding "time of use" rates and "green pricing" options
- a report on the elimination of cross subsidies within customer classifications

GENERATING PERFORMANCE



OBJECTIVES

Meet generating station unit availability targets

Better manage operating and capital costs

Maximize out-of-province margins

Champion safety of employees, public and equipment

Operate in compliance with environmental regulations

STRATEGIES

Utilize performance indicators to improve safety, reliability, cost control and environmental compliance

Leverage greater staff flexibility, attrition and retraining for productivity gains

Further develop energy marketing strategies and capabilities

Continual focus on business process improvements—maintenance programs and fuel price hedging

Implement ISO 14001 environmental standard

Provide direct communications to employees on business issues

OPERATING ONE OF NORTH AMERICA'S MOST DIVERSE GENERATION SYSTEMS, THE GENERATION BUSINESS UNIT PRODUCES ECONOMIC, DEPENDABLE AND ENVIRONMENTALLY RESPONSIBLE ELECTRICITY AT ITS 14 HYDRO, OIL, COAL, DIESEL AND ORIMULSION® POWERED STATIONS. THE NETWORK OF CONVENTIONAL GENERATION STATIONS HAS AN INSTALLED CAPACITY OF 3,140 MW.

Business Accomplishments

The Generation Business Unit met its availability performance target during 2000-2001. Improved work procedures contributed to this achievement by reducing the outage times required to complete maintenance work. The Belledune Generating Station was honoured as a "Best Performer" by the Electric Utilities Cost Group, an association of electric utilities in North America. There were two exceptions to the improved performance levels. Both the Dalhousie and Courtenay Bay Generating Stations were shut down during non-peak periods to clean-up asbestos materials remaining in the stations.

The availability performance also contributed to successful export sales of surplus electricity. The Energy Marketing and Fuels group completed sales with customers in Nova Scotia, Quebec and New England. A scheduled maintenance outage at the Belledune Generating Station was shortened so that additional capacity could be sold. In total, export sales realized $332 million in revenue for the Corporation.

Cost efficiencies were also realized from the successful planning of fuel purchases. While some fuel costs are relatively stable throughout the year, the purchase price of heavy fuel oil can be volatile. As well, transactions in the world commodity market are made in US dollars, increasing the potential for volatility. Successful fuel price hedging was achieved by locking in a price per barrel with forward contracts to protect against the risk of possible adverse price changes.

With the co-operation and support of the International Brotherhood of Electrical Workers Local #37, Generation collapsed five existing labour contracts into one contract that represents all employees. This will facilitate improved productivity and enhance relations between the business unit and the union.

Safety is a priority in Generation. Employees in Belledune celebrated a major safety milestone in 2000-2001, reaching 1,000,000 person hours without a lost-time accident. Similarly, employees in Hydro have not experienced a lost-time incident in more than three years. This makes NB Power one of the safest Canadian electric utilities.

Building a More Competitive Business Unit

The success of the Generation Business Unit depends on station availability, reliability, productivity and the strategic scheduling of maintenance around in-province (winter) and export (summer) peaks. These factors determine that in-province electricity commitments are satisfied and that surplus capacity is available for profitable export markets.

Generation participates in business risk management, addressing many of the variables that determine operational efficiency. Generation identified business risks in several areas—fuel cost management, engineering design expertise, human resources, financial planning/modelling, building proper partnerships, regulatory/environmental issues and the transition to a new marketing environment. Responsibilities for managing the risks were assigned and the outcomes were reported throughout the fiscal year.

In order to maximize the opportunity for export sales, Generation has shortened required maintenance outages. When financially viable, additional resources may be allocated to maintenance outage projects. This is an important consideration when the capacity of the station is required by New Brunswick customers or could be sold to export customers. In such situations, the increased cost of maintenance is more than offset by operational savings or export revenue. Therefore, reliability centred maintenance is a critical component in Generation's overall strategy. This practice allows the station teams to closely monitor all equipment and to anticipate required maintenance so that work may be completed at the most beneficial times.

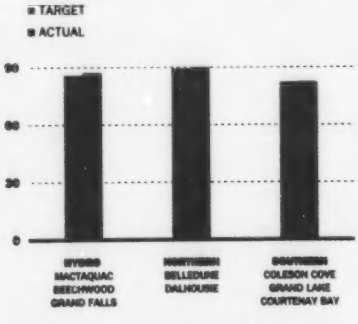
Progress on meeting new staffing levels continued throughout the year and Generation is close to reaching its targets. The delayed shut down of Courtenay Bay units #2 and #4 required some target dates to be restated, however, the workforce was reduced by 18% over the last two years.

NB Coal Limited, a wholly-owned subsidiary of NB Power, operated its two draglines for eight months to reach its production target of 245,000 tons of coal. In order to provide a more competitive fuel price to NB Power, the shipment of coal to the Belledune Generating Station was halted in December 2000. The workforce will be reduced by 25% starting in 2001-2002 and future operations will see NB Coal deliver 160,000 tons annually to the Grand Lake Generating Station.

BELLEDUNE — NORTH AMERICAN EFFICIENCY LEADER

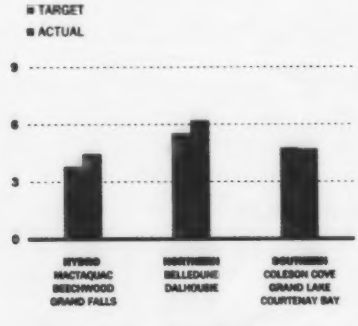
COLEBON COVE — RELIABILITY CENTRED MAINTENANCE

UNIT AVAILABILITY
(%)



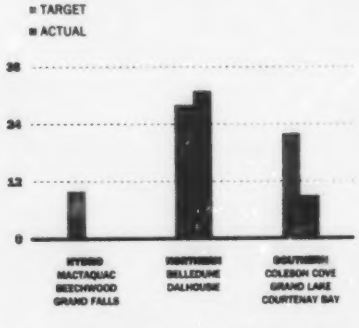
Unit availability is the percentage of time, incorporating planned and unplanned outages, a unit is available to generate electricity.

OM&A COSTS
($ per MWh)



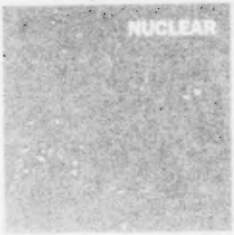
OM&A Costs track the budgeted versus actual operations, maintenance and administration costs ($/MWh) to measure efficient resource management.

SAFETY
(days lost)



The number of days lost due to injury targetted at an average 1/10 day per employee each year or 10 days per 200,000 hours worked is one measure of safety.

ACHIEVING CONSISTENT OPERATIONS



OBJECTIVES

Strong nuclear safety culture

Consistent, predictable operations

Confidence of World Association of Nuclear Operators, Canadian Nuclear Safety Commission, Board of Directors and public

Planned, managed outage schedule

Successful refurbishment decision

STRATEGIES

Implement World Association of Nuclear Operators "Area for Improvements" action plans

Complete Transition Team activities

Implement business planning process and management commitments

Move to 18-month outage cycle from 12-month outage cycle

Establish dedicated refurbishment planning and analysis

THE CANDU 6, 635 MW UNIT AT POINT LEPREAU GENERATES LOW-COST ELECTRICITY AND SUPPLIES UP TO 30% OF IN-PROVINCE ENERGY. ITS RELIABLE ENERGY PRODUCTION IS IMPORTANT TO THE FINANCIAL, OPERATIONAL AND ENVIRONMENTAL PERFORMANCE OF THE CORPORATION BECAUSE IT IS ONE OF THE LOWEST COST GENERATORS ON THE SYSTEM AND DISPLACES VAST QUANTITIES OF CARBON DIOXIDE, SULPHUR DIOXIDE AND NITROGEN OXIDE EMISSIONS.

Business Accomplishments

The Point Lepreau Generating Station generated 3,899 GWh of electricity to support in-province and export demands. The fiscal year capacity factor was 65.1% which was less than the budgeted capacity factor of 72%. Point Lepreau's lifetime capacity factor is 82.4%.

An extensive scheduled maintenance outage in August-December 2000 was completed in 75 days—two days ahead of schedule. Employees shared a productivity incentive for completing the work safely, effectively and ahead of schedule. There were two unscheduled outages during 2000-2001. A temporary disruption in generation was required in December to replace an electrical generator seal and an extended outage in March-April was required to replace three feeder pipes. The latter outage lasted 41 days (27 days in 2000-2001) and resulted in the lower-than-planned capacity factor for the fiscal year. There were no lost-time accidents resulting from maintenance work during any of these outages.

The station was successful in its application for renewal of the nuclear power reactor and solid waste facility operating licenses from the Canadian Nuclear Safety Commission.

Station staff are committed to building a safe and efficient environment that fosters the consistent production of electricity. Employees place considerable emphasis on safe work practices, being sure that everyone understands the work to be done and how best to approach it. Employees recorded a notable safety achievement in 2000-2001 when they surpassed 1,000,000 person hours of work without a lost-time accident. Two major emergency preparedness exercises, one on security and another on a mock radiation release, involved station staff and participants from the RCMP, surrounding community and Emergency Measures Organization.

Progress continued on the development of a comprehensive station environmental management system. This system moves the station toward the ISO 14001 quality standard.

Building a More Competitive Business Unit

The Point Lepreau business plan, introduced in March 2000, provided improved focus for establishing station priorities and measuring progress. Every department prepared operational business plans with performance measures, and these operational business plans were aligned with the station's overall performance objectives. A Project Management Office was also established to assist in managing larger station projects more effectively.

Newly implemented programs designed to enhance the safe operation of the station included the Problem Identification and Corrective Action System (PICA). This allows employees to identify problems and corrective actions on any aspect of the business or processes, thus contributing to improved employee understanding of the objectives, initiatives, procedures and consequences of planned activities. PICA has contributed to a stronger, more cohesive team as questions raised are tracked and analyzed so that recurring issues are addressed.

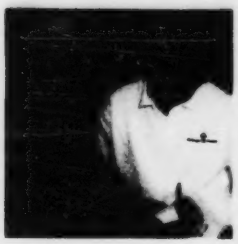
Recognizing that implementing change effectively is a major task, a Transition Team is charged with planning and managing changes to improve the overall effectiveness of the station. During 2000-2001, the team continued development of a Nuclear Management Manual and a Quality Management Program, emphasizing design processes and configuration management control.

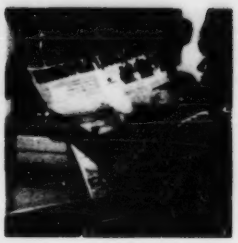
The business unit is working diligently to develop and maintain a highly skilled and productive workforce. As part of its succession plan, 10 technical school graduates in power engineering will be hired in each of the next five years. A technical specialist from the World Association of Nuclear Operators (WANO) is under contract for 18 months to help establish more efficient and effective delivery of maintenance service. Staff continue to work closely with regulators and peers in the nuclear industry to ensure the best management and production possible.

Preliminary engineering and definition work for station refurbishment continued during 2000-2001. A project director was appointed to the refurbishment effort with the responsibility to manage the preliminary engineering and approvals phase of the project and to oversee the business relationships among vendors, partners and NB Power staff.

Point Lepreau is committed to developing better public communications. During 2000-2001, it hosted many station tours, open houses and information sessions, most recently in regards to the proposed refurbishment of the station.

POINT LEPREAU — REFURBISHMENT INFORMATION SESSIONS

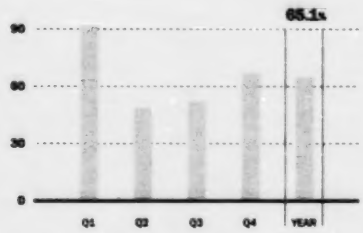




SAFETY — 1,000,000 PERSON HOURS WITH NO LOST-TIME ACCIDENT

CAPACITY FACTOR

(%)

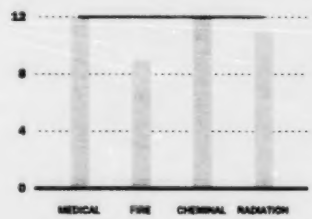


Capacity factor is the actual generation as a percentage of maximum generation.

DRILL PERFORMANCE

(number of drills completed)

– TARGET



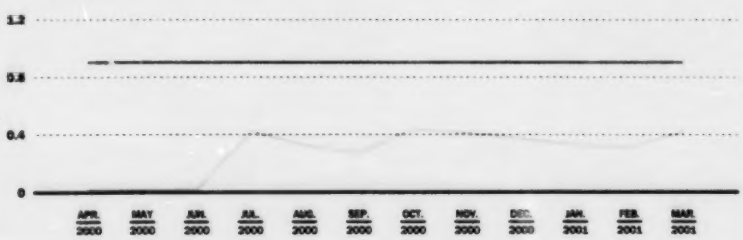
This indicator measures contingency drills for chemical, medical, fire and radiation alerts completed versus the number of drills scheduled.

ACCIDENT FREQUENCY RATE

(%)

FREQUENCY RATE

– TARGET



The number of accidents that result in one or more day's absence from work. This number is normalized to 200,000 hours worked in order to enable meaningful comparisons.

DELIVERING RELIABILITY

OBJECTIVES	STRATEGIES
Safety of staff and public	Develop a strong safety culture
Reliability	Implement reliability work plans
Customer satisfaction	Develop and implement an operational risk management program
Business-like operations	
Preparation for competition	Develop qualified technical skill capabilities
Valued and energized employees	Improve work planning and monitoring processes through key performance indicators
	Strive toward the ISO 14001 environmental standard

RESPONSIBLE FOR THE RELIABLE AND SAFE DELIVERY OF ELECTRICITY TO THE DISTRIBUTION SYSTEM, LARGE INDUSTRIAL CUSTOMERS AND EXPORT CUSTOMERS, STAFF IN THE TRANSMISSION BUSINESS UNIT MAINTAIN OVER 6,706 KM OF TRANSMISSION LINES AND 298 SUBSTATIONS AND TERMINALS. THE ENERGY CONTROL CENTRE OPERATES THE TRANSMISSION SYSTEM AND MANAGES THE TRANSMISSION TRANSACTIONS.

Business Accomplishments

The restructuring of the Transmission and Distribution Business Unit on October 1, 2000 followed a comprehensive Transmission Organization Review. The new Transmission Business Unit is structured around a Transmission company operation or "TRANSCO" model which encompasses transmission assets and power system operations. This model promotes open access to transmission networks and opportunities for energy trading and it allows the business unit to be better positioned for electric industry developments.

Safety and reliability were the top priorities of Transmission. Employees worked safely to provide a solid transmission system capable of serving the needs of traditional and emerging customers. The business unit made a major effort to integrate and co-ordinate all activities in order to ensure a robust transmission grid that supports its reliability objective.

In spite of a significant windstorm that ravaged southern New Brunswick in mid-December, Transmission achieved its best reliability performance in eight years. A major asset renewal program has continued to improve system reliability. The construction of a 138 kV substation in Moncton was successfully completed, as was a new 138 kV line running from Norton to Courtenay Bay. Staff also continued to work closely with large industrial customers. Projects completed during the fiscal year included expansion of the switchyard at Courtenay Bay to accommodate the Bayside Power development and improvements to satisfy the needs of the expanded Irving Oil Refinery in Saint John.

Revenue from transmission services exceeded budget due to higher than anticipated use of the transmission system by other trading organizations. Operational, maintenance and capital expenditures were below budgets due to more comprehensive planning, strategic scheduling and cost savings on equipment.

Transmission is committed to creating the safest work environment among North American electric utilities by encouraging safe work practices and ensuring customer safety. There were five lost-time accidents in 2000-2001, resulting in 18 days lost. This represents a major reduction compared to the previous fiscal year.

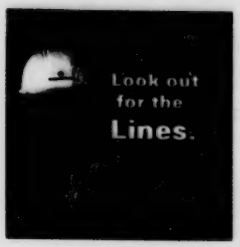
Safety Meet 2001 was a precedent setting safety initiative undertaken jointly by NB Power and the International Brotherhood of Electrical Workers Local #37. Every employee in the Customer Service and Transmission business units attended seminars to increase leadership and individual accountability for safety. Specific sessions were delivered on two new safety improvement projects—"Leaders' Field Visits" and "Tail Board Conferences".

Building a More Competitive Business Unit

Business risk management is a critical learning process for the business unit and afforded the opportunity to manage business in a more effective manner. Transmission developed action plans to mitigate risks related to system reliability that involved facility planning, design, maintenance and operations; 86% of the identified risks were successfully addressed. One significant risk addressed was the creation of a back-up control centre to ensure the continuous operation of the transmission grid in the event of a system failure at the Energy Control Centre.

To ensure that employees have the leadership and job skills necessary to accomplish business objectives, Transmission began its largest training effort to date. A leadership program contributed to improved succession planning, while other training programs enhanced technical, financial, managerial and interpersonal skills. These initiatives are helping to prepare staff to take stronger accountability for job responsibilities.

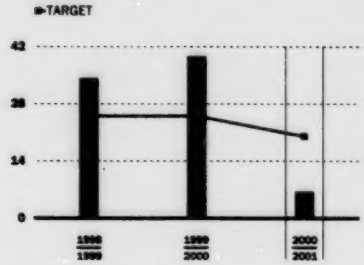
Being a reliable provider of electricity requires close working relationships with other electric utilities. Senior staff from Transmission were active within the North American Electric Reliability Council and the Northeast Power Co-ordinating Council to help ensure a reliable bulk transmission system.



CUSTOMER SAFETY —
NEW TELEVISION COMMERCIALS

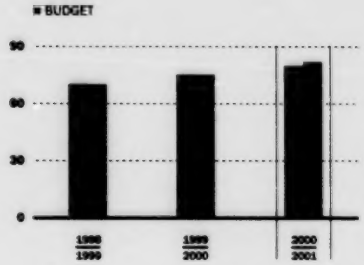
BUSINESS CONTINUITY —
BACK-UP CONTROL ROOM

SAFETY
(severity)



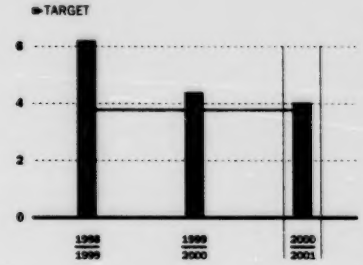
This measures the number of days lost due to injury per 200,000 hours worked.

OM&A COSTS
(in millions of dollars)



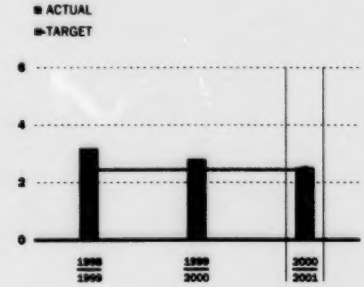
In this indicator, the operations, maintenance and administration budget is compared to actual costs.

RELIABILITY—SAIDI
(hours)



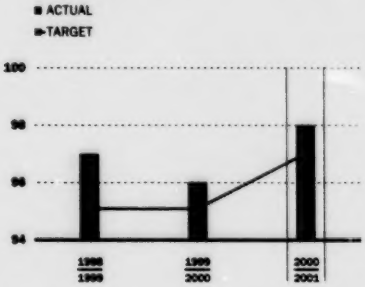
System Average Interruption Duration Index (SAIDI) is the average total duration of interruptions during the year.

RELIABILITY—SAIFI
(frequency)



System Average Interruption Frequency Index (SAIFI) is the average number of interruptions per customer per year.

CUSTOMER SERVICE
(% on time)



The measure of work orders completed on time, as a percentage of work orders filed, reflects the timeliness of service to customers.

Note: During the fiscal year, the Transmission and Distribution and the Customer Service and Marketing business units were reorganized. These performance indicators relate to all transmission and distribution activities performed during the fiscal year.

BUILDING RELATIONSHIPS

CUSTOMER SERVICE

OBJECTIVES

Safety of staff and public

Reliability

Customer satisfaction

Environmental protection

STRATEGIES

Establish safety awareness programs and deliver safety training

Implement reliability work plan recommendations

Develop qualified technical skill capabilities

Improve work planning and process monitoring through performance indicators

Enhance local customer service presence

Strive toward the ISO 14001 environmental standard

WITH ITS COMMITMENT TO CUSTOMER SATISFACTION, THE FOCUS OF THE CUSTOMER SERVICE BUSINESS UNIT IS THE MAINTENANCE OF THE DISTRIBUTION SYSTEM AND SERVICE DELIVERY TO RESIDENTIAL, COMMERCIAL AND SMALL INDUSTRIAL CUSTOMERS. STAFF MAINTAIN 25,753 KM OF DISTRIBUTION LINES AND MANAGE CUSTOMER RELATIONSHIPS THROUGH MODERN CUSTOMER CONTACT CENTRES AND ACCOUNT MANAGERS.

Business Accomplishments

Customer Service was restructured mid-way through the fiscal year with the addition of the Distribution functions previously grouped with Transmission. This realignment allowed for an improved focus on customer service as the delivery of electricity to residential, commercial and small industrial customers is now grouped in the same business unit as customer contact and account management functions. This organization structure came together quickly and provided the basis for a more cohesive approach to service.

Employees demonstrated commitment and performance in service restoration during a severe wind storm in mid-December. The storm was one of the worst to hit the province in years and resulted in serious service disruptions affecting hundreds of thousands of customers in all areas of the province. While service was restored to most customers the same day, some outages lasted up to four days. The customer service call centre teams handled more than 90,000 calls during the storm's peak, and crews worked around the clock to repair equipment and restore service. Despite the severe working conditions, repairs were completed without a single lost-time accident.

Overall safety performance was improved in the business unit. The number of lost-time accidents was 11 days, down from 15 recorded the previous fiscal year. The number of lost days due to accidents dropped significantly from 290 in 1999-2000 to 34 this fiscal year. The investment in training, planning and safety culture has delivered improved safety performance.

Customer safety was also a priority with a commitment to safe working practices and communication of safety messages. A television advertising campaign, print advertisements, informational brochures and property signage contributed to these efforts. In addition to the general safety messages, timely messages were released during the December storm outages to encourage customers to follow safe and proper procedures during power interruptions.

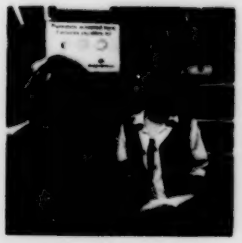
Employees continued to build stronger relationships with customers. A communications campaign in the late fall promoted bill payment options for customers who anticipated difficulties paying their electricity bills during the winter heating season. Making early alternate payment arrangements and avoiding possible service disconnection benefited both customers and NB Power. Information sessions were held for customers who live near a substation upgrade in Moncton and the upgrade of facilities and new transmission lines in Sackville. These sessions offered customers opportunities to share their opinions and learn how planned work might affect their local communities.

Building a More Competitive Business Unit

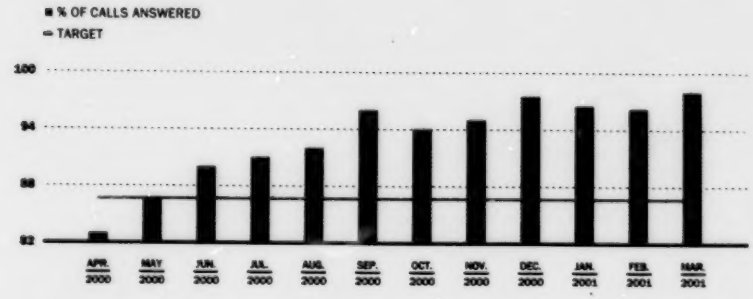
A central engineering function was created to improve technical capabilities. This group is responsible for substation design, supporting regional technical groups in reliability analyses of lines and equipment, and vegetation management performance. This optimizes efficiency in the business unit by ensuring consistency in standards, procedures and resources.

A succession plan program was integrated with the selection and hiring of new employees. Continued focus on leadership training equipped supervisors with the knowledge and skills to ensure the business unit delivers on its objectives. As with the other business units, Customer Service has restructured its existing bargaining units into one, thus creating a more productive and responsive organization.

Ongoing improvements in the customer contact system will greatly improve service levels. A new interactive voice response (IVR) system was activated late in the fiscal year to enhanced the level of customer service. This service enables customers to choose from several automated options offering faster and more convenient response.

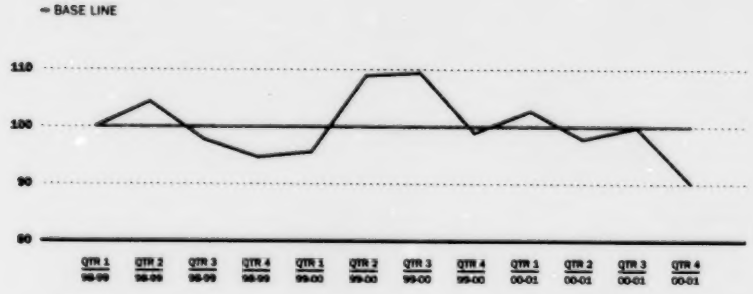


CUSTOMER SERVICE
(% of calls answered)



Contact center staff answered 553,601 customer inquiries during 2000-2001. Soft skills and system training, increased efficiency with the new billing system and the telephony enhancements made during the year all contributed to improved performance.

CUSTOMER SERVICES INDEX

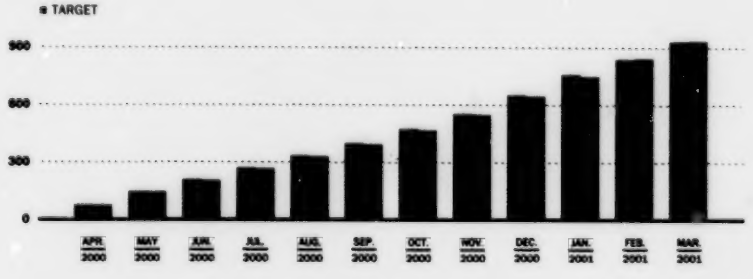


The Customer Service Index provides NB Power with a measurement tool that is reflective of the overall level of service being provided, as well as an indication of relative change occurring over time. It is based on a standard set of five questions asked in each of the quarterly tracking surveys. They are:

- Overall quality of service (% Excellent)
- Quality of service compared to five years ago (% Better)
- Reliability of service (% Excellent)
- Speed of service restoration (% Very Satisfied)
- Handled customer inquiries (% Excellent)

The impact from a major storm and related power outages experienced in mid-December played a significant role in the declining CSI in Quarter 4. Despite the CSI downturn other indicators such as customer loyalty, corporate image and attitudes to NB Power have shown positive trends.

CUMULATIVE IN-PROVINCE REVENUE
(in millions of dollars)



The 2000-2001 in-province revenue from residential, general service, wholesale and industrial customers was $931 million.

OBJECTIVES

Provide strategic advice to the business units

Ensure timely, expert and efficient services

Support Corporate management

Assist business unit development

THE CORPORATE SERVICES GROUP COMPRISES HUMAN RESOURCES AND ADMINISTRATION, BUSINESS INFORMATION SYSTEMS, FINANCE, CORPORATE PLANNING, TELECOMMUNICATIONS, ENVIRONMENT, LEGAL AND PUBLIC AFFAIRS. BY PROVIDING STRATEGIC DIRECTION AND SUPPORT, THESE DIVISIONS ENABLE THE BUSINESS UNITS TO BETTER PERFORM IN THE GENERATION AND DELIVERY OF LOW COST, RELIABLE ELECTRICITY.

Human Resources and Administration

NB Power and the International Brotherhood of Electrical Workers (IBEW) restructured their collective bargaining relationship to reflect the business unit structure. Negotiations are underway with three of the four bargaining unit groups created as a result of this new approach to collective bargaining. In partnership with IBEW, the Corporation continued to support joint workplace training programs.

Corporate Health and Safety Department programs, implemented by the business units, continued to improve safety performance. During 2000-2001, NB Power recorded 21 disabling accidents, the fewest in the Corporation's history and a 30% reduction year-over-year. These results placed NB Power among the leaders in Canadian electric utility safety. Gains have also been achieved in the Workplace Health, Safety, and Compensation Commission's (WHSCC) audit scores as NB Power achieved some of the highest scores recorded by an industry in the province. The WHSCC recognized NB Power with its annual Safety Recognition Award.

A new Human Resource Planning Strategy focused on risks from the Corporation's demographic profile and labour market trends. State-of-the-art human resources information management systems facilitated improved demographic analyses and action plans have been put in place to address demographic issues. Initiatives in support of the planning strategy included a four-year Leadership and Corporate Succession program.

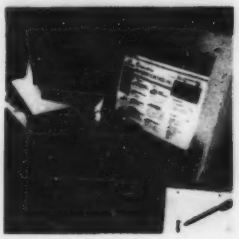
Faced with the rising costs of health and dental benefits, NB Power and IBEW implemented a cost containment strategy that focused on education, a redesigned benefits program and greater use of Wellness Programs. Through a joint labour/management initiative, Enerflex, a flexible benefits program, was redesigned with greater emphasis on employee participation and accountability.

Business Information Systems

During the fiscal year, Corporate IT Governance continued its role in aligning information systems and technology investment with Corporate and business unit goals. BIS worked with the business units and delivered 54 information systems that provided business process solutions. For example, the delivery of a collaborative software solution for NB Power and Atomic Energy of Canada Ltd. (AECL) allows NB Power and AECL to share confidential information for the Point Lepreau Generating Station refurbishment project securely, cost-effectively, and in real time.

BIS is also responsible for protecting and expanding the computing environment for the Corporation. In 2000-2001, BIS contracted an external provider to maintain and operate the computing infrastructure and information systems. This enables BIS to focus on sustaining and delivering information systems that support the achievement of NB Power's business objectives. As the guardian of the information systems and data, BIS managed 2000 personal computers and laptops, over 400 business applications, two Enterprise Resource Planning systems, 45 networks, 31 operating locations, and four regional server locations throughout the province.

The availability and reliability of NB Power's information systems were maintained through a diligent and proactive virus management program. The program allowed early detection and prevention of viruses that could have damaged information systems. A business recovery plan was developed to ensure critical business applications could be recovered and service restored in the event disaster rendered the primary computing site unusable.



Finance

To guide the Business Risk Management Program, Internal Audit Services assisted several areas of the Corporation in risk management activities. BIS and Human Resources performed operational risk assessments and developed risk management strategies, while each business unit continued to address its identified risks. The Executive Risk Management Committee implemented an action plan to mitigate corporate risks and updated the corporate risk profile.

During 2000-2001, the Board of Directors approved a debt management strategy. Finance is preparing for major refinancing requirements over the next three years when almost 50% of outstanding issues will be due or callable. To protect budgets and mitigate risk from financial markets, Finance has hedged borrowing requirements and interest rate risk.

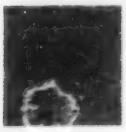
Public Affairs

Public Affairs provided communications services to senior management and the business units during the fiscal year. In addition to on going media and public relations activities, effort was focused on the Point Lepreau Nuclear Generating Station refurbishment communications program, the launch of the benefits program Ener*flex* 2001, community outreaches for several transmission projects, payment agency signage and new safety television commercials.

A new Corporate Intranet was launched in February 2001. It serves a dual role by providing a vehicle for enhanced communications and establishing a platform for the Corporation's future enhancement of web applications for business improvements. The Intranet is a multi-task instrument providing easier access to information—it is customizable to fit the needs of each business unit and individual employee user. Enhancements to the Corporate Internet web site (www.nbpower.com) continued. Site improvements included more customer service features, regulatory information, a Point Lepreau refurbishment project section and a refreshed education section providing "virtual" tours of major generating stations.

FINANCIAL REVIEW 2000-2001

TABLE OF CONTENTS



36 MANAGEMENT REPORT AND AUDITOR'S REPORT

37-40 CONSOLIDATED FINANCIAL STATEMENTS

41-50 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

51-64 STATISTICAL OVERVIEW

Highlights

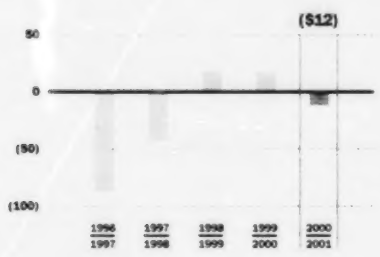
(in millions of dollars)	2000-2001	1999-2000	1998-1999	1997-1998	1996-1997
FINANCIAL PERFORMANCE					
Income (loss) before transfers and write-off	$ (12)	$ 17	$ 18	$ (43)	$ (87)
Income (loss) before write-off	$ (12)	$ 17	$ 27	$ (21)	$ (19)
Net income (loss)	$ (12)	$ 17	$ (423)	$ (21)	$ (19)
Operating cash flow	$ 214	$ 237	$ 239	$ 154	$ 119
Free cash flow	$ 114	$ 197	$ 189	$ 67	$ 68
Reduction in net debt*	$ 23	$ 234	$ 123	$ 43	$ 53
FINANCIAL RATIOS AND PERCENTAGES					
Operating margin	23%	28%	30%	26%	25%
Operating cash flow/capital expenditures	1.84x	2.56x	3.63x	2.67x	1.77x
Debt/capital	100%	99%	100%	89%	89%
Interest coverage**	.96x	1.06x	1.06x	0.86x	0.72x
KEY OPERATING FACTORS					
Hydro net generation***	88.6%	113.0%	100.9	88%	107%
Point Lepreau Generating Station net capacity factor	65.1%	72.1%	83.6%	66.0%	62.7%
Canadian dollar – March 31st	$0.634	$0.688	$0.663	$0.706	$0.722
Heavy fuel oil price ($US/bbl average)	$20.28	$16.70	$ 9.76	$14.12	$15.88

* Free cash flow after foreign exchange adjustment to US debt on the balance sheet / ** Based on income (loss) before transfers and write-off / *** Percentage of long-term average

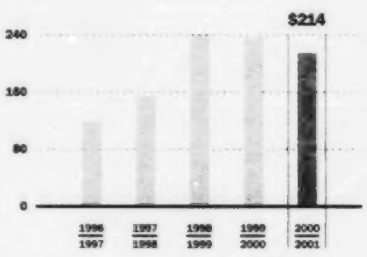
Overview

NB Power incurred a loss of $12 million in 2000-2001 compared to a net income of $17 million in 1999-2000. A six-week unplanned outage at the Point Lepreau Nuclear Generating Station, beginning late in the fiscal year and lasting 27 days in 2000-2001, cost the utility $27 million in replacement fuel and purchased power costs, lost export sales opportunities, and OM&A costs. Two other factors contributed to net income performance. For economic reasons, the Corporation stopped burning indigenous New Brunswick coal at the Belledune Generating Station and lower coal mining levels necessitated restructuring at NB Coal Limited, a wholly-owned subsidiary of NB Power. Therefore, a one-time charge of $5 million was recorded for early retirement costs and a one-time write-down of $7 million was recorded for a surplus dragline.

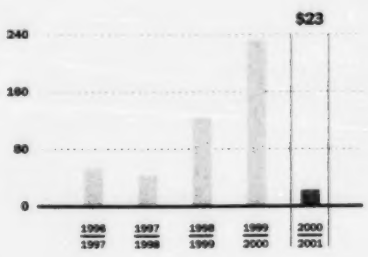
INCOME (LOSS) BEFORE TRANSFERS AND WRITE-OFF
(in millions of dollars)



OPERATING CASH FLOW
(in millions of dollars)



REDUCTION IN NET DEBT
(in millions of dollars)



This result demonstrates that the Corporation's profitability is not sufficient to absorb an unplanned loss of generation from Point Lepreau for an extended period. For almost 20 years, the station has provided up to 30% of NB Power's generation; however, increased maintenance challenges may mean a continuing possibility of unplanned outages. This continues to be an on going business risk facing the Corporation and net income performance will remain vulnerable until refurbishment of the station is undertaken or the station is decommissioned.

Despite the loss, the Corporation generated a strong level of operating cash flow at $214 million. Capital expenditures of $118 million were funded from the cash flow. Free cash flow was $114 million. Debt was reduced by $23 million in 2000-2001 which was lower than anticipated because of the significant drop in the value of the Canadian dollar.

The Corporation's key financial indicators demonstrated that the improved performance, evident over a five-year period, was sustained in 2000-2001:

- Operating cash flow amounted to $214 million compared to $237 million in 1999-2000. This is the third successive year that operating cash flow has remained above $200 million.
- Capital expenditures of $118 million were funded from the Corporation's cash flow.
- Free cash flow, which is cash flow after capital expenditures and changes in working capital, is money available for debt reduction. It was $114 million in 2000-2001 compared to $197 million in 1999-2000. Free cash flow has provided $635 million towards debt reduction over the last five years. This is an important measure of the Corporation's financial health.
- Debt reduction continued for the fifth year in a row and was $23 million in 2000-2001 after adjustments for foreign exchange. Debt reduction over the last five years has reached $476 million.

	2000-2001	1999-2000	1998-1999	1997-1998	1996-1997
(in millions of dollars)					
Income (loss) before transfers and write-off	$ (12)	$ 17	$ 18	$ (43)	$ (87)
Transfers from reserves	0	0	9	22	68
Write-off of deferred charge	0	0	(450)	0	0
NET INCOME (LOSS)	$ (12)	$ 17	$ (423)	$ (21)	$ (19)

Operating Results 2000-2001

REVENUES

NB Power's revenue is comprised of in-provinces sales, out-of-province sales and miscellaneous revenues from water heater rentals, transmission tariffs, ancillary services and the sale of steam and generation by-products. The Corporation's revenue grew 4.9% from $1.25 billion in 1999-2000 to $1.3 billion in 2000-2001.

REVENUES	2000-2001	1999-2000	1998-1999	1997-1998	1996-1997
(in millions of dollars)					
Sales of power					
In-province	$ 931	$ 888	$ 872	$ 869	$ 825
Out-of-province	332	330	304	244	182
Miscellaneous revenue	46	30	28	27	30
TOTAL REVENUES	$1,309	$1,248	$1,204	$1,140	$1,037
% increase	4.9%	3.7%	5.6%	9.9%	1.9%

SALES OF POWER – IN-PROVINCE

In-province revenue from the sales of power was $931 million in 2000-2001 compared to $888 million in 1999-2000, an increase of $43 million or 4.8%. The increase was mainly due to:

- the return to colder weather which increased electricity consumption by 484 GWHr and increased revenue by $29 million
- the impact of the 3% residential rate increase on April 1, 2000, resulting in a revenue increase of $10 million
- an increase in industrial sales of 139 GWh or $10 million due to the strong economy

In-province revenue was negatively affected by reduced consumption of 214 GWHr in the residential and general services sectors which reduced revenue by $9 million.

IN-PROVINCE REVENUE BY SECTOR

In-province revenue for each customer sector increased in 2000-2001 compared to the previous fiscal year:

- **Residential** – Residential revenue from over 275,000 households was $364 million, an increase of $24 million or 7.1% over 1999-2000 revenue of $340 million. The 3% rate increase on April 1, 2000, contributed $10 million to this increase and the return to average weather conditions contributed $18 million. These increases were negatively affected by a reduction of $4 million in anticipated energy use because of lower energy use per customer.
- **General Service** – General service revenue from small businesses, hospitals and schools was $178 million for 2000-2001 compared to $176 million the previous year, an increase of $2 million or 1.1%.
- **Wholesale** – Wholesale power sales to the municipal utilities in Saint John and Edmundston were $73 million compared to $71 million in 1999-2000, a year-over-year increase of $2 million or 2.8%.
- **Industrial** – Industrial revenue of $298 million was $10 million or 3.5% higher than the previous year. The increase was due to the strong economy coupled with the return to normal operations for certain major customers.

SALES OF POWER – OUT-OF-PROVINCE

Export sales to neighbouring provinces and New England continue to be a major source of revenue. Margins on this revenue have allowed NB Power to keep rates to in-province customers significantly lower than they otherwise would be.

Out-of-province revenue was $332 million in 2000-2001 compared to $330 million the previous year, an increase of $2 million. While the volume of energy sold decreased 22% from 6,255 GWh to 4,878 GWh, this was more than offset by higher market prices. Less electricity was available for exports due to lower than average hydro performance and reduced capacity from the Point Lepreau Nuclear Generating Station because of the unplanned outage.

MISCELLANEOUS REVENUE

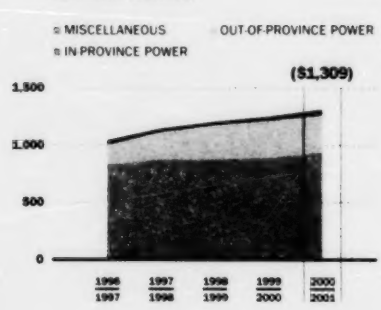
Miscellaneous revenue, which consists of water heater rentals, transmission tariffs, ancillary services and the sale of steam and generation by-products, was $46 million in 2000-2001, an increase of $16 million year-over-year. Half of the increase was due to an increase in transmission tariff revenue which grew from $1 million in 1999-2000 to $9 million in 2000-2001.

Expenses

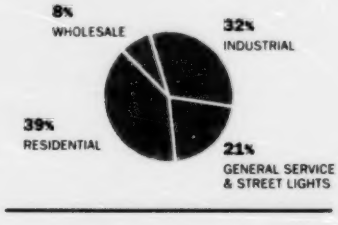
FUEL AND PURCHASED POWER

The cost of fuel and purchased power in 2000-2001 was $501 million compared to $395 million in 1999-2000, an increase of $106 million or 26.8%. Fuel costs, mainly for heavy fuel oil, accounted for 80% of this spending, while purchased power from utilities in Nova Scotia, Maine and Quebec accounted for the remaining 20%.

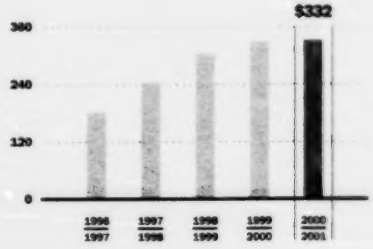
REVENUE ANALYSIS
(in millions of dollars)



IN-PROVINCE REVENUE
(in millions of dollars)



OUT-OF-PROVINCE REVENUE
(in millions of dollars)



The cost increase for fuel and purchased power was attributable to four factors:

1. **Lower hydro generation** – Hydro generation in 2000-2001 was 22% lower year-over-year and 11% below long-term average water flows.
2. **Lower nuclear availability** – The capacity factor of the Point Lepreau Nuclear Generating Station was 65.1% in 2000-2001 compared to 72.1% the previous year.
3. **Increased oil generation** – A significant portion of the cost increase was caused by the need to utilize oil generation to replace low cost nuclear and hydro generation.
4. **Higher oil prices** – Oil prices averaged $16.70 US per barrel in 1999-2000 and increased to an average of $20.28 US per barrel in 2000-2001. Because oil purchases are made in US dollars, the lower Canadian dollar also had an impact on fuel costs. The Canadian dollar averaged $0.66 in 2000-2001 compared to $0.68 in 1999-2000.

Purchased power was significantly reduced in 2000-2001 as a fixed price contract with a neighbouring utility expired in February 2000.

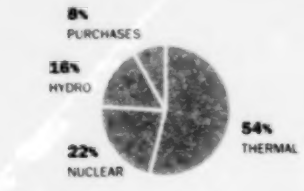
FUEL AND PURCHASED POWER COSTS – YEAR-OVER-YEAR	2000-2001	1999-2000	Variance	Energy (GWh) Generated	GWh Variance over 1999-2000 increase (decrease)
(in millions of dollars)					
Thermal	$397	$220	$177	11,837	2,640
Nuclear	4	5	(1)	3,618	(404)
Hydro	0	0	0	2,352	(647)
Purchases	100	170	(70)	2,017	(2,615)
TOTAL	$501	$395	$106	19,824	(1,026)

FUEL AND PURCHASED POWER COSTS – IN-PROVINCE

Fuel and purchased power costs incurred to meet in-province demand increased by $94 million, from $207 million in 1999-2000 to $301 million in 2000-2001. The upward cost pressures were:

1. **Lower hydro generation** – Lower water flows meant that hydro conditions were less favourable than during the previous fiscal year which increased costs by $29 million. High water levels allow increased production of relatively inexpensive power from the hydro generating stations.
2. **Higher oil prices** – The price of heavy fuel oil rose significantly, increasing costs by $27 million.
3. **Lower nuclear generation** – The capacity factor of Point Lepreau was 65.1% in 2000-2001 resulting in an increase of $17 million in replacement power costs. The more electricity that can be produced from nuclear, the less NB Power must utilize more expensive thermal generation and purchases of power.
4. **Higher demand** – The in-province demand for electricity increased by 356 GWhrs thereby increasing costs by $16 million.
5. **Lower Canadian dollar** – The value of the Canadian dollar weakened against the US dollar making fuel purchased in US dollars more expensive. This cost an additional $5 million year-over-year.

IN-PROVINCE SUPPLY
(in millions of KWh)



FUEL AND PURCHASED POWER COSTS – OUT-OF-PROVINCE

Out-of-province sales volumes increased in 2000-2001 compared to the previous year. Nonetheless, fuel and purchased power costs to supply out-of-province customers increased $12 million because of higher heavy fuel oil prices. Overall, net margins on out-of-province sales decreased by $10 million.

FUEL AND PURCHASED POWER FOR OUT-OF-PROVINCE	2000-2001	1999-2000	Variance	Variance %
(in millions of dollars)				
Energy (GWh) Sold	4,878	6,255	(1,377)	(22)%
Out-of-Province Revenues	$ 332	$ 330	$ 2	.6%
Cost of Fuel and Purchases	200	188	12	6.4%
OUT-OF-PROVINCE MARGIN	$ 132	$ 142	$ 10	(7)%

OPERATIONS, MAINTENANCE AND ADMINISTRATION EXPENSES

Operations, maintenance and administration expenses were $309 million in 2000-2001, compared to $315 million in the previous fiscal year. This represents an decrease of $6 million or 1.9%.

There were upward pressures on costs from the following factors:

- A staff reduction at NB Coal Limited resulted in a one-time charge of $5 million for early retirement costs
- Costs of $5 million were incurred for increased maintenance in Generation due to asbestos removal at two facilities and other outage requirements
- Investments to improve reliability in Transmission and Customer Service increased costs by $6 million

These upward pressures were more than offset by the following factors:

- A decrease in pension expense of $9 million due to favourable return on assets in 1999-2000
- A settlement with a third party of $6 million
- Savings of $3 million from staff reductions in Generation

AMORTIZATION AND DECOMMISSIONING

Amortization and decommissioning amounted to $205 million in 2000-2001 compared to $190 million the previous fiscal year, an increase of $15 million or 7.9%. Higher amortization costs were caused by the write-down of $7 million from an NB Coal Limited dragline that is no longer being used, while other increases were attributable to nuclear and information systems investments.

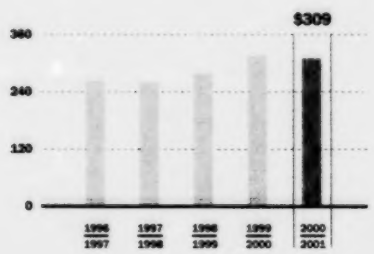
FINANCE CHARGES

Finance charges decreased to $306 million in 2000-2001 from $331 million in 1999-2000. This $25 million cost reduction occurred primarily because of the significant reduction in net debt from the previous year. Also, interest costs on long-term debt declined in 2000-2001 because higher interest debt issues were replaced with new debt issues at lower interest rates.

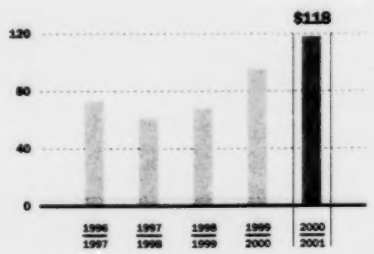
CAPITAL EXPENDITURES

Capital expenditures totalled $118 million in 2000-2001 compared to $95 million in 1999-2000. Capital expenditures in 2000-2001 included pre-engineering analysis and other work required for a decision on Point Lepreau Generating Station refurbishment.

OM&A EXPENSES
(in millions of dollars)



CAPITAL EXPENDITURES
(in millions of dollars)



NB Power's business development plan, completed in 2000-2001, has examined various generation and transmission projects that would satisfy objectives for stable electricity rates going forward, reliable electricity and emerging environmental standards. The development plan recommends the following investment projects:

- New England transmission line and interconnection
- Coleson Cove Generating Station refurbishment
- Point Lepreau Nuclear Generating Station refurbishment

The Board has approved expenditures for detailed study of the feasibility of proceeding with these development projects.

Operating Cash Flow and Debt Reduction

OPERATING CASH FLOW

NB Power's operating cash flow was $214 million in 2000-2001, a decrease of $23 million or 9.7% from 1999-2000. The loss for the year was the main reason for the decline. Operating cash flow in 2000-2001 exceeded capital spending requirements enabling NB Power to pay down its debt for the fifth year in a row.

	2000-2001	1999-2000	1998-1999	1997-1998	1996-1997
(in millions of dollars)					
Net income (loss)	$(12)	$ 17	$(423)	$ (21)	$ (19)
Amortization and other non-cash items not requiring a cash payment	226	220	662	175	138
OPERATING CASH FLOW	$214	$237	$239	$154	$119

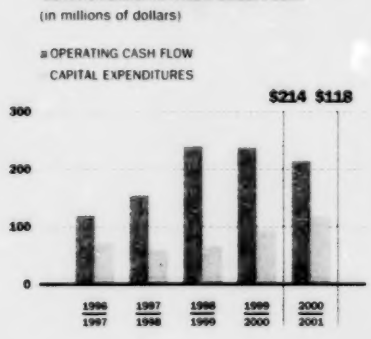
FREE CASH FLOW

Free cash flow was $114 million in 2000-2001 down from $197 million in 1999-2000. Free cash flow is the operating cash flow less capital expenditures, plus proceeds on disposals of assets, customer contributions for capital expenditures and changes in working capital.

	2000-2001	1999-2000	1998-1999	1997-1998	1996-1997
(in millions of dollars)					
Operating cash flow	$214	$237	$239	$154	$119
Capital expenditures	(118)	(95)	(68)	(61)	(73)
Proceeds on disposal and customer contributions	2	41	3	1	4
Decrease (increase) in working capital	16	22	23	(20)	18
Unfunded pension liability payment	0	(8)	(8)	(7)	0
FREE CASH FLOW	$114	$197	$189	$67	$68

COMPONENTS OF FREE CASH FLOW

(in millions of dollars)



DEBT REDUCTION

Debt reduction was $23 million compared to $234 million the previous year. This level of debt reduction was significantly affected by the amount of US denominated debt and the decline in the Canadian dollar as the exchange rate was $0.634 cents at March 2001 compared to $0.688 cents at March 2000. Before the foreign exchange adjustment at fiscal year end, debt reduction was $105 million. Free cash flow was applied to the Corporation's debt in amounts of $114 million in 2000-2001 compared to $197 million in 1999-2000.

	2000-2001	1999-2000	1998-1999	1997-1998	1996-1997
(in millions of dollars)					
Free cash flow	$ 114	$ 197	$ 189	$ 67	$ 68
Foreign exchange adjustment	(82)	37	(66)	(24)	(15)
Debt discount and interest hedging	(9)	0	0	0	0
REDUCTION IN NET DEBT	$ 23	$ 234	$ 123	$ 43	$ 53

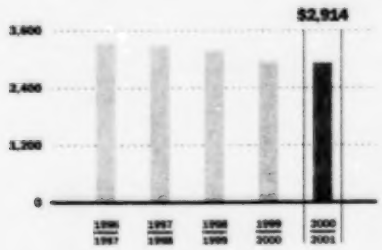
LIQUIDITY

The Corporation accesses capital markets through debt issued by the Province of New Brunswick. The level of the Corporation's short-term borrowings fluctuates depending on timing of debt maturities and capital investment requirements though it is generally in the range of 5% of total debt.

Debt maturing in 2000-2001 comprised of $26 million 7.625% bonds maturing July 2000, $75 million 11.25% bonds maturing December 2000 and $150 million 10.75% bonds maturing February 2001. During 2000-2001, NB Power exercised a call option for early redemption on $75 million 12.5% bonds due May 2005. NB Power will exercise call options where opportunities exist to replace high-coupon debt with low-coupon debt.

DEBT	2000-2001	1999-2000	1998-1999	1997-1998	1996-1997
(in millions of dollars)					
Long-term debt, net of sinking fund investments	$2,869	$2,795	$3,019	$3,104	$3,247
Short-term indebtedness	102	176	159	194	111
Cash and short-term investments	(57)	(34)	(7)	(4)	(21)
TOTAL	$2,914	$2,937	$3,171	$3,294	$3,337

TOTAL NET DEBT
(in millions of dollars)



Financial Risk Management

NB Power manages financial risks in its business operations, including fuel prices, currency fluctuations and interest rate changes. The objective is to maintain the stability and predictability of costs thereby helping the Corporation meet budget targets. Financial contracts are used to hedge a portion of the Corporation's exposure to a particular risk.

FINANCIAL SENSITIVITY

ECONOMIC VARIABLE	Sensitivity / Variance (+/-)	Net Income Impact 2000-2001 *
(in millions of dollars)		
Canadian Dollar (US¢)	US 1¢	$ 6.5
Interest Rates (short term)	1%	$ 1.5
Interest Rates (long term)	1%	$ 1.2
Oil Prices ($US/bbl)	US$1/bbl	$13.6

* Before hedging program

NB Power's exposure to the US dollar affects a variety of costs. Approximately 65% of the Corporation's total costs, arising from fuel, purchased power and finance charges, are settled in US dollars. As well, total net debt is affected by foreign currency translation of the Corporation's $660 million US dollar debt. The impact of currency fluctuations is mitigated by a currency hedging program and the long-term plan to rollover US dollar debt into Canadian funds. During 2000-2001, 88% of the Corporation's US dollar requirement was hedged. Approximately 20% of the Corporation's revenues are received in US dollars and this provides some hedging against US dollar exposure.

Interest rate fluctuations affect the cost of NB Power's debt. The Corporation seeks to replace high interest coupons with lower interest coupons by re-borrowing at the relatively low interest rates prevalent in the past few years. The Corporation has implemented a hedging program to reduce these exposures and during 2000-2001, 50% of the Corporation's interest rate exposure on new debt was hedged.

NB Power used heavy fuel oil during 2000-2001 to generate electricity and in its efforts to mitigate oil price volatility, the Corporation used forward contracts to lock in oil prices during the periods when it most relied on this fuel. During 2000-2001, 68% of exposures related to fixed price sales were hedged. The Corporation's exposure to oil price fluctuations has been reduced by diversifying fuel sources. In 2001-2002, natural gas will be added to NB Power's generation sources.

Business Risk Management

NB Power has completed the second year of a three-year program with Ernst & Young LLP to integrate risk management with business operations and implement more sophisticated risk assessment and control processes. The objectives of the program are to:

- Develop an improved understanding of the key business risks facing NB Power and their potential impact on achieving business objectives
- Formalize NB Power's risk management policy and structure
- Prioritize and focus on key risks
- Enhance ownership and accountability for risk management throughout the Corporation

The Executive and Board of Directors monitored the progress of the Corporate and business unit action plans to mitigate identified business risks and they received audited results of the control testing.

During 2000-2001, initial operational risk assessments were completed in two key Corporate Services divisions – Business Information Systems and Human Resources. A risk assessment refresh was carried out in the Transmission Business Unit. Risk assessment refreshes in the other business units are planned for 2001-2002. Additionally, the Corporate risk profile was updated during the fiscal year resulting in the identification and new prioritization of the following business risk factors:

- **Export markets** – maintain and expand access to export markets
- **Point Lepreau Generating Station refurbishment** – effective management of refurbishment project
- **Coleson Cove refurbishment** – effective management of refurbishment project
- **Leadership** – attracting, developing, retaining strong leaders and deployment to high priority areas
- **Generation reliability** – due diligence in maintaining generation reliability
- **Transmission reliability** – due diligence in maintaining transmission system reliability

The Point Lepreau Generating Station and Coleson Cove Generating Station refurbishment projects are in the feasibility stage.

Action plans have been put in place to address these business risks.

MANAGEMENT REPORT

NB Power's financial statements have been prepared by management, who are responsible for the integrity, accuracy and fairness of the information. The accounting principles followed in the financial statements are generally accepted in Canada. The financial information throughout the annual report is consistent with the financial statements.

Systems of internal control and supporting procedures are maintained to provide assurance that transactions are authorized, assets are safeguarded and proper records maintained. These controls include:

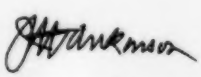
- system security and various financial controls
- quality standards in hiring and training of employees
- a code of conduct
- establishment of an organizational structure that provides a well-defined division of responsibilities
- performance accountability
- communication of policies and guidelines through the Corporation

Internal controls are reviewed and evaluated by audit programs which are subject to scrutiny by external auditors.

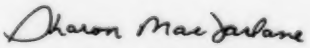
The ultimate responsibility for the financial statements rests with the Board of Directors. The Board is assisted in its responsibilities by the Audit Committee. The Audit Committee reviews the recommendations of the internal and external auditors for improvements in internal control and the action of management to implement such recommendations.

In carrying out its duties and responsibilities, the Audit Committee meets regularly with management and with both the external and internal auditors to review the scope and timing of their respective audits, to review their findings and to satisfy itself that its responsibilities have been properly discharged. The Audit Committee reviews the financial statements and recommends them for approval by the Board.

The Corporation's external auditors, Deloitte & Touche LLP, have conducted an independent examination of the financial statements in accordance with auditing standards generally accepted in Canada, performing such tests and other procedures as they consider necessary to express the opinion in their Auditor's Report. The external auditors have full and unrestricted access to the Audit Committee to discuss their audit and related findings as to the integrity of the Corporation's financial reporting and the adequacy of internal control systems.



James F. Hankinson, President and Chief Executive Officer



Sharon MacFarlane, Vice President – Finance and Information Systems
June 4, 2001

AUDITOR'S REPORT

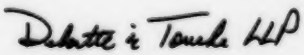
The Honourable Marilyn Trenholme Counsell, MD
Lieutenant-Governor of New Brunswick
Fredericton, New Brunswick

Madam:
We have audited the consolidated balance sheet of New Brunswick Power Corporation as at March 31, 2001 and the consolidated statements of income and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement.

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2001 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.



Chartered Accountants
June 4, 2001

CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS

Year ended March 31, 2001

(in millions of dollars)	2001	2000
REVENUES		
Sales of power (Note 3)		
In-province	$ 931	$ 888
Out-of-province	332	330
Miscellaneous	46	30
	1,309	1,248
EXPENSES		
Purchased power	190	170
Fuel	401	225
Operation, maintenance and administration	309	315
Amortization and decommissioning (Note 4)	205	190
	1,015	900
Income before finance charges	294	348
Finance charges (Note 5)	306	331
NET INCOME (LOSS) FOR THE YEAR	(12)	17
RETAINED EARNINGS		
BEGINNING OF YEAR	20	3
END OF YEAR	$ 8	$ 20

CONSOLIDATED BALANCE SHEET

As at March 31, 2001

(in millions of dollars)	2001	2000
PROPERTY, PLANT AND EQUIPMENT (Note 6)		
Land, buildings, plant and equipment, at cost	$5,323	$5,239
Less: accumulated amortization	2,417	2,242
	2,906	2,997
LONG-TERM ASSETS		
Sinking fund investments (Note 11)	–	17
CURRENT ASSETS		
Cash and short-term investments (Note 7)	97	34
Accounts receivable	174	170
Materials, supplies and fuel	78	78
Prepaid expenses	4	3
	353	285
DEFERRED CHARGES		
Unrealized foreign exchange differences, less amounts amortized (Note 8)	172	106
Deferred debt costs, less amounts amortized	27	22
Deferred pension benefit (Note 9)	82	38
	281	166
	$3,470	$3,465

ON BEHALF OF NEW BRUNSWICK POWER CORPORATION

Max Lewis, Chairman

Barbara Bender, Director

CONSOLIDATED BALANCE SHEET

As at March 31, 2001

(in millions of dollars)	2001	2000
LONG-TERM DEBT (Note 11)		
Debentures and other loans	$2,950	$2,907
Less: sinking funds	326	329
	2,624	2,578
CURRENT LIABILITIES		
Short-term indebtedness (Note 12)	102	176
Accounts payable and accruals	184	139
Accrued interest	73	79
Current portion of long-term debt (Note 11)	245	234
	604	628
DEFERRED LIABILITIES		
Irradiated fuel management and plant decommissioning (Note 13)	221	209
Other (Notes 10 and 14)	33	30
	254	239
EQUITY		
Retained earnings	8	20
	$3,470	$3,465

CONSOLIDATED STATEMENT OF CASH FLOW

Year ended March 31, 2001

(in millions of dollars)	2001	2000
NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES:		
OPERATING		
Net income (loss) for the year	$ (12)	$ 17
Amounts charged or credited to operations not requiring a current cash payment (Note 15)	226	220
	214	237
Net change in non-cash working capital balances	16	22
	230	259
FINANCING		
Debt retirements	(252)	(175)
Sinking fund payments	(56)	(61)
Long-term debt obligations issued	291	49
Increase (decrease) in short-term indebtedness	(74)	17
	(91)	(170)
INVESTING		
Expenditure on property, plant and equipment	(118)	(95)
Proceeds on disposal and customer contributions	2	41
Unfunded pension liability payment	–	(8)
	(116)	(62)
NET CASH INFLOW	23	27
CASH AND SHORT-TERM INVESTMENTS		
BEGINNING OF YEAR	34	7
END OF YEAR	$ 57	$ 34

1. SIGNIFICANT ACCOUNTING POLICIES

The New Brunswick Power Corporation ("the Corporation"), established in 1920 as a Crown Corporation of the Province of New Brunswick by enactment of the New Brunswick *Electric Power Act*, has a corporate mission to provide for the continuous supply of energy adequate for the needs and future development of the Province and to promote economy and efficiency in the generation, distribution, supply, sale and use of power.

The accompanying financial statements have been prepared in accordance with generally accepted accounting principles, applied on a basis consistent with that of the preceding year. The financial statements include the accounts of the Corporation and those of its wholly owned subsidiary, N.B. Coal Limited (N.B.Coal).

A. REGULATION

The Corporation is regulated under a price cap system. Annual average rate increases greater than three percent, or the Consumer Price Index, whichever is higher, require regulatory review and approval by the Board of Commissioners of Public Utilities of the Province of New Brunswick (Public Utilities Board). The Corporation must also apply to the Public Utilities Board before making any expenditure greater that $75 million in relation to upgrading, maintaining or decommissioning of a generating facility.

B. PROPERTY, PLANT AND EQUIPMENT

The cost of additions to property, plant and equipment is the original cost of contracted services, direct labour and material, interest on funds used during construction and indirect charges for administration and other expenses, less credits for the value of power generated during commissioning.

Interest during construction is capitalized monthly based on the cost of long-term borrowings. When significant assets are taken out of service for extended periods of time for refurbishment, interest during construction is charged based on the net book value of the asset concerned.

Contributions in aid of construction which include amounts received from customers as well as research and development grants in respect of new facilities, are netted against the cost of related assets. Amounts received from customers are being amortized over the estimated service lives of the related assets.

The cost of distribution assets retired, net of dismantlement and salvage, is charged to accumulated amortization. For all other property, plant and equipment disposed of, the cost and accumulated amortization is written out of the accounts with the gain or loss on disposal being reflected in income.

Amortization is provided for all assets sufficient to amortize the cost of such assets, less estimated salvage value over their estimated service lives. The estimated service lives of fixed assets are periodically reviewed and any changes are applied prospectively. Amortization is suspended when significant assets are taken out of service for extended periods for refurbishment. Amortization is provided on certain mining equipment on an increasing charge basis, the amortization amount being based on the amount of related debt retirement required during the year. All other assets are amortized on a straight-line basis. Amortization is provided on the net cost of property, plant and equipment in respect of which grants have been provided.

The main categories of property, plant and equipment have been amortized based on the following estimated service lives:

Assets	Years
Hydro Generating Stations	70
Thermal Generating Stations	35
Nuclear Generating Station	25
Combustion Turbine Generating Stations	25
Terminals and Substations	40
Transmission System	35 to 55
Distribution System	10 to 35
Buildings	
General	40
Head Office	50
Communications and Computer Systems	3 to 15
Mining Equipment	20 to 25
Motor Vehicles	4 to 10

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. CASH AND SHORT-TERM INVESTMENTS

Cash and short-term investments consist of balances with banks and investments in money market instruments which mature within three months from date of acquisition.

D. INVENTORIES

Inventories of materials and supplies, and fuel, other than nuclear fuel, are valued at average cost. Nuclear fuel is valued at cost using the first-in, first-out method.

E. DEFERRED DEBT COSTS

The Corporation amortizes debenture discounts and premiums, the expenses of issues, and the deferred interest over the lives of the issues to which they pertain.

F. FOREIGN EXCHANGE TRANSACTIONS

Monetary assets and liabilities denominated in foreign currencies are translated to Canadian (Cdn) dollars at rates of exchange prevailing at the balance sheet date except where such items have been hedged by the acquisition of a forward exchange contract, in which case the rate established by the terms of the contract is used in the translation. Unrealized losses or gains arising on translation of long-term items are amortized to income on a straight-line basis over the remaining life of the related monetary assets or liabilities, except that amounts associated with the financing of major construction projects still in progress are deferred until the project is completed before being amortized over the then remaining life of the related monetary liabilities. The unamortized balance of the deferred exchange gains or losses is accumulated in an unrealized foreign exchange account which is shown on the balance sheet under deferred charges.

Exchange gains or losses resulting from transactions affecting current operations are reflected in income.

G. FINANCIAL INSTRUMENTS

Long-term debt

Long-term debt is recorded on the balance sheet at cost. The estimated fair value of long-term debt is disclosed in the notes to the financial statements using market values or estimates of market values based on debt with similar terms and maturities. The fair value estimated does not include costs that would be incurred to exchange or settle the debt.

Derivative financial products

The Corporation enters into forward exchange contracts to manage exchange risk related to interest obligations on US denominated long-term debt. The Corporation also enters into interest rate agreements to reduce exposure to changes in interest rates on planned refinancing of debt. The Corporation also enters into oil swap agreements to reduce exposure to changes in the cost of heavy fuel oil used in the operations of its generating stations.

H. REVENUE

Billings to residential and general service customers are rendered monthly on a cyclical basis. All other customers are billed at the end of each month. Revenue in respect of items not billed at the end of a fiscal period is estimated and accrued.

I. IRRADIATED FUEL MANAGEMENT AND PLANT DECOMMISSIONING

In order to provide for the estimated future costs of permanently disposing of irradiated nuclear fuel and decommissioning the nuclear generating station to return the site to a state of unrestricted use, the Corporation annually charges income with amounts calculated to be adequate, when accumulated with interest, to cover the total costs of these future activities as they occur. The calculations of the anticipated future costs are based on detailed studies that take into account various assumptions regarding the method and timing of dismantlement of the nuclear facility, the cost of transportation of nuclear material to permanent disposal facilities, and estimates of interest and inflation rates in the future. With respect to irradiated nuclear fuel, the annual charge is related to the amount of nuclear fuel consumed in each year while decommissioning requirements are charged on a straight-line basis over the life of the station.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Corporation is also providing, through an annual charge to income, for the estimated future costs of decommissioning its thermal generating stations. The amount of the charge, when accumulated with interest, is intended to cover the total costs of decommissioning activities as they occur.

The annual charges to income each year to cover the costs of these future activities are accumulated in a deferred liability account, together with interest, compounded annually, on the total amounts collected. Interest is calculated at the Corporation's long-term borrowing rate and is charged to income annually.

Expenditures incurred on a current basis relating to irradiated fuel management and plant decommissioning are charged against the deferred liability account.

In view of potential developments in the technology of decommissioning and irradiated fuel management, and because of the various assumptions and estimates inherent in the calculations, the Corporation reviews such calculations periodically, making adjustments as necessary on a prospective basis.

J. PENSION PLANS

Corporation employees belong to the Province of New Brunswick Public Service Superannuation Plan. This multi-employer plan provides pensions based on length of service and the average of the highest five consecutive years of earnings. The Corporation and its employees make contributions to the plan as prescribed in the Public Service Superannuation Act and its regulations. N.B. Coal maintains a private contributory defined benefit pension plan for its employees.

Under both plans, pension costs are actuarially determined using the projected benefit method, pro-rated on services and management's best estimate assumptions. Experience gains or losses in excess of 10% of the greater of the pension assets and pension obligations are amortized over the expected average remaining service life of the employee group. The fair market value of the plan assets less the accrued benefit obligation as determined at April 1, 2000, is amortized over the average remaining service life of the employee group.

K. RETIRING ALLOWANCE

The Corporation has a retiring allowance program for employees that provides a lump-sum payment equal to one week of pay for each full year of employment to a maximum of 26 weeks of pay. The actuarial present value of accrued retiring allowance obligations for past service is amortized on a straight line basis over the expected average remaining service life of the employee group.

L. EARLY RETIREMENT PROGRAMS

The total cost of such programs is charged to income in the year the program is initiated, irrespective of when payments are actually made.

M. USE OF ESTIMATES

General

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expense during the reporting period. Actual results could differ from the estimates.

1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Decommissioning and irradiated fuel management costs and amortization of nuclear generating station

As indicated in note 1(i), the Corporation annually charges income with amounts calculated to be adequate, when accumulated with interest, to cover the total costs of permanently disposing of irradiated nuclear fuel and for decommissioning the nuclear generating station to return the site to a state of unrestricted use. Because of the various assumptions and estimates inherent in the calculations, the Corporation periodically reviews these estimates and adjusts them on a prospective basis if necessary.

During the year the Corporation completed reviews of its estimates for the costs of permanently disposing of irradiated nuclear fuel and decommissioning the nuclear generating station. The reviews considered the impacts on the estimates of changes in costs, interest rates and inflation rates.

The annual charges for irradiated nuclear fuel disposal and decommissioning costs are further impacted by the timing of the end of the generating station service life and the consequent timing of decommissioning. The current year reviews did not consider any changes in these factors beyond the last reviews completed in 1996.

The reviews done in 1996 reflected a generating station service life of 2014. However, in the year ended March 31, 1999, the service life of the Point Lepreau generating station, for amortization purposes, was changed to 2008.

Currently the Corporation is investigating the feasibility of refurbishing the nuclear generating station to extend its service life beyond 2008. In early 2002, the Corporation's Board of Directors will make a decision on whether or not to refurbish the station which will impact the estimates for irradiated fuel management and decommissioning costs, and amortization. If a decision is made to refurbish the nuclear generating station and extend its service life, the annual charges for irradiated fuel management and decommissioning will increase from their current level by $3 million and the annual charge for amortization will decrease by $23 million. If a decision is made not to refurbish the plant, the annual charges for irradiated fuel management and decommissioning will increase by $13 million and the annual charge for amortization will remain unchanged from current levels.

In view of the uncertainty relating to the decision on refurbishment that will determine the estimated service life for the nuclear generating station, the Corporation's financial statements continue to reflect the 1996 reviews for purposes of calculating the annual charge for irradiated fuel management and decommissioning. Accordingly, when the refurbishment decision is made in 2002, it is reasonably possible that the annual charges to income for irradiated fuel management and decommissioning of the nuclear generating station and its amortization will differ, and could differ materially, from the estimated amounts provided in these financial statements.

2. CHANGE IN ACCOUNTING POLICY

Effective April 1, 2000 the Corporation prospectively adopted the Canadian Institute of Chartered Accountants (CICA) new recommendations for employee future benefits. These new rules specify the accounting standards for pension costs and non-pension future employee benefits. The impact of the change was not material.

3. SALES

a) Power sales to the Province of New Brunswick and other government owned organizations are recorded at normal commercial rates.

b) Out-of-province sales of power include $234 million (2000 – $223 million) to utilities in the United States.

4. AMORTIZATION AND DECOMMISSIONING

	2001	2000
Amortization expense	[illegible]	$188
Charges for decommissioning	[illegible]	2
	[illegible]	$190

5. FINANCE CHARGES

	2001	2000
Interest expense		
– on debentures and other loans	[illegible]	$309
– on deferred liabilities	[illegible]	15
	[illegible]	324
Less: Income from sinking funds and other investments	[illegible]	28
	[illegible]	296
Provincial government guarantee fee	[illegible]	20
Amortization of deferred debt costs	[illegible]	5
Amortization of unrealized foreign exchange	[illegible]	12
	[illegible]	333
Less: Interest capitalized	[illegible]	2
	[illegible]	$331

Interest paid on debt during the year was $288 million (2000 – $314 million). Interest received on investments during the year was $23 million (2000 – $28 million).

6. PROPERTY, PLANT AND EQUIPMENT

	2001		2000	
			Cost	Accumulated amortization
Power generating stations	[illegible]	[illegible]	$3,641	$1,558
Transmission system	[illegible]	[illegible]	252	111
Terminals and substations	[illegible]	[illegible]	389	185
Distribution system	[illegible]	[illegible]	651	256
Buildings and properties	[illegible]	[illegible]	56	24
Communications and computer systems	[illegible]	[illegible]	59	19
Mining equipment and related assets	[illegible]	[illegible]	74	50
Motor vehicles	[illegible]	[illegible]	45	29
Miscellaneous assets	[illegible]	[illegible]	18	10
Construction-in-progress	[illegible]	[illegible]	54	–
	[illegible]	[illegible]	$5,239	$2,242

7. CASH AND SHORT-TERM INVESTMENTS

	2001	2000
Cash	[illegible]	$31
Short-term investments	[illegible]	3
	[illegible]	$34

8. UNREALIZED FOREIGN EXCHANGE DIFFERENCES, LESS AMOUNTS AMORTIZED

	2001	2000
Exchange adjustment at balance sheet date	$249	$167
Less: accumulated amortization	77	61
	$172	$106

9. DEFERRED PENSION BENEFIT

Corporation employees belong to the Province of New Brunswick Public Service Superannuation Plan (Public Service Plan) as described in Note 1j. Actuarial valuations are prepared periodically to determine the costs of the pension benefits and the appropriate amounts of contributions to the fund. The latest actuarial valuation done on the Public Service Plan was April 1, 2000.

The actuarial method used incorporates management's or the plan owner's best estimate assumptions to determine the present value of accrued pension benefit obligations based on projections of salaries and wages to normal retirement dates. The pension calculations were completed using a discount rate of 6.5% on the obligation and a rate of return of 7.5% on assets. Salary increases are assumed to be 2.5%.

The status of the costs and obligations of the Corporation's share of the Public Service Plan and N.B. Coal's private plan as at March 31, 2001 was as follows:

	2001	2000
Pension fund assets (market value)	$884	$654
Accrued pension obligations	$853	$554
Pension surplus	$ 11	$100
Cost of benefits for the year	$ 10	$ 8
Interest cost on accrued benefits	41	44
Interest on pension fund assets	(53)	(45)
Amortization of transitional surplus	(4)	(1)
Amortization of gains/losses	–	(3)
Pension expense	$ (6)	$ 3

Employees contributed $9 million (2000 – $8 million) and the Corporation contributed $8 million to the plan (2000 – $8 million) during the year. Benefit payments from the plan to retirees were $25 million (2000 – $23 million). Total contributions to date in excess of pension expense, in the amount of $52 million (2000 – $38 million) have been set up as an asset under deferred charges.

10. RETIRING ALLOWANCE LIABILITY

The Corporation has a retiring allowance program for employees as described in Note 1k. Actuarial calculations are prepared to determine the amount of the Corporation's obligations for retiring allowances. The actuarial method used incorporates management's best estimate assumptions to determine the present value of the accrued retiring allowance obligation based on projections of salaries and wages to normal retirement dates. The interest rate used in the calculation of this obligation was 6.5% and the assumed rate of salary escalation was 2.5%. The latest actuarial calculation was done as at April 1, 2000.

The retiring allowance obligation as at March 31, 2001 is $22 million (2000 – $25 million). The retiring allowance expense for the year ended March 31, 2001 was $4 million (2000 – $4 million).

The cumulative amount expensed in excess of amounts paid out under the retirement allowance program has been set up as a liability under deferred liabilities.

11. LONG-TERM DEBT

	2001	2000
Debentures guaranteed by the Province of New Brunswick	$ 134	$ 211
Debentures held by the Province of New Brunswick	3,061	2,930
	3,195	3,141
Less: Payments due within one year	245	234
	$2,950	$2,907

DEBENTURES AND NOTES

Date of maturity	Average Interest Rate	Canadian	US	2001	2000
Years ending:					
March 31, 2001	–	–	–	–	251
March 31, 2002	9.6%	250	–	250	250
March 31, 2003	8.0%	500	189	689	674
March 31, 2004	7.5%	100	–	100	100
March 31, 2005	–	–	–	–	–
March 31, 2006	8.1%	200	–	200	–
1-5 Years	8.3%	1,050	189	1,239	1,275
6-10 years	8.3%	495	–	495	570
11-30 Years	8.5%	600	851	1,451	1,285
Debentures and notes		$2,145	$1,040	$3,185	$3,130
Loan payable in annual installments of principal and interest at rates varying from 4.5% to 8.25% per annum to the year 2011.				10	11
Total long-term debt				$3,195	$3,141

The US$ debenture balance outstanding at March 31, 2001 is US$ 660 million.

The weighted average interest rate on all debentures and notes outstanding at March 31, 2001 is 8.39% (2000 – 8.88%).

11. LONG-TERM DEBT (CONTINUED)

LONG-TERM DEBT PAYMENTS

Long-term debt maturities and sinking fund requirements in respect of debt outstanding at March 31, 2001 are as follows for the five years ending March 31, 2006:

(in millions)	Debt maturities and sinking fund obligations
Year ending:	
March 31, 2002	[illegible]
March 31, 2003	[illegible]
March 31, 2004	[illegible]
March 31, 2005	[illegible]
March 31, 2006	[illegible]

Exchange rates in effect at March 31, 2001 are used for debt denominated in foreign currencies.

SINKING FUNDS

The Minister of Finance of the Province of New Brunswick, as Trustee for the Corporation, maintains a sinking fund for all debenture issues where required. Sinking fund earnings are reflected in the Corporation's income. Corporation debentures held in the fund are cancelled at maturity or on the debenture call date. Sinking fund investments are deducted from long-term debt except where the legally enforceable right to offset does not exist. The amount not offset and reclassified as investments is immaterial (2000 – $17 million).

GUARANTEE FEE

The Corporation pays an annual guarantee fee to the Province of New Brunswick, amounting to 0.6489% of the total, as at the previous year end, of long-term debt guaranteed by the Province, debentures held by the Province and short-term indebtedness to the Province, less the balance held in sinking funds.

12. SHORT-TERM INDEBTEDNESS

The Corporation borrows funds for temporary purposes from the Province of New Brunswick. The short-term borrowings from the Province of New Brunswick are $102 million at March 31, 2001 (2000 – $176 million).

The Corporation may also borrow from banks from time to time. Such borrowings are payable on demand. The Corporation has bank lines of credit, guaranteed by the Province of New Brunswick, for short-term borrowings totaling $104 million.

N.B. Coal has bank lines of credit which are secured by a general assignment of book debts.

13. IRRADIATED FUEL MANAGEMENT AND PLANT DECOMMISSIONING

	2001	2000
Irradiated fuel management	[illegible]	$109
Nuclear decommissioning	[illegible]	86
Thermal decommissioning	[illegible]	14
	[illegible]	$209

The obligation is not funded.

14. DEFERRED LIABILITIES – OTHER

	2001	2000
Early retirement programs	[illegible]	$27
Retirement allowance program	[illegible]	6
	[illegible]	33
Less: Amounts due within one year	[illegible]	3
	[illegible]	$30

14. DEFERRED LIABILITIES – OTHER (CONTINUED)

During the fiscal year ended March 31, 2001, the Corporation's subsidiary, N.B. Coal, recorded an expense of $5 million for a downsizing program. During the fiscal year ended March 31, 2000, the Corporation recorded an expense of $7 million for an early retirement program.

15. AMOUNTS CHARGED OR CREDITED TO OPERATIONS NOT REQUIRING A CURRENT CASH PAYMENT

	2001	2000
Amortization and decommissioning	$208	$190
Amortization of deferred debt costs	4	5
Amortization of unrealized foreign exchange	18	12
Disposal of nuclear fuel consumed during the year	(2)	(2)
Interest on plant decommissioning and irradiated fuel management	14	12
Retirement expenses less related cash payments	3	8
Reduction in pension expense	(14)	(5)
	$226	$220

16. FINANCIAL INSTRUMENTS

FOREIGN EXCHANGE RISK MANAGEMENT

At March 31, 2001, the Corporation had outstanding forward exchange contracts representing a net commitment to purchase US$ 124 million (2000 – US$ 105 million). The weighted average rate of exchange protected by these contracts is Cdn $1.5161.

The fair value of forward exchange contracts as at March 31, 2001 is $196 million (2000 – $151 million). If the contracts had been closed out at March 31, 2001, the gain would have been $8 million (2000 – $1 million loss).

FUEL PRICE RISK MANAGEMENT

At March 31, 2001, the Corporation had outstanding oil swap contracts totaling $62 million (2000 – $20 million) maturing over the next year. The fair market value of the fuel price swap agreements as at March 31, 2001 is $58 million (2000 – $24 million).

Under the agreements, the Corporation exchanges monthly payments based on the differential between a fixed price and a monthly cumulative floating price for the associated fuel. The differential to be paid or received is reflected in the cost of fuel.

If the outstanding swap contracts for which gains or losses accrue to the Corporation had been closed out at March 31, 2001, the loss would have been $4 million (2000 – $4 million gain).

INTEREST RATE RISK MANAGEMENT

The Corporation has entered into interest rate swap agreements with effective dates of March 15, 2001 to November 15, 2002 and termination dates from June 15, 2011 to February 17, 2013. These agreements have a notional principal amount of $450 million. The Corporation will pay a weighted average fixed rate of 6.555%. If the agreements had been closed out at March 31, 2001, the loss would have been $17 million (2000 – immaterial).

16. FINANCIAL INSTRUMENTS (CONTINUED)

FAIR VALUE OF DEBT AND SINKING FUNDS

The estimated fair value of long-term debt as at March 31, 2001 is $3,620 million compared to a book value of $3,195 million (2000 – $3,448 million compared to $3,141 million). The estimated fair value of all sinking funds as at March 31, 2001 is $346 million compared to a book value of $326 million (2000 – $362 million compared to $346 million).

CREDIT RISK

Credit risk arises from the potential that a counter party will fail to perform its obligations. The Corporation conducts a thorough assessment of debtors prior to granting credit and actively monitors the financial health of its debtors on an on-going basis. The accounts receivable, net of applicable reserves approximates fair market value.

17. COMMITMENTS

BELLEDUNE WHARF

The Corporation has entered into a twenty year operating lease, expiring in 2013, with a twenty year renewal option for the port facility at Belledune. This lease provides for annual charges of approximately $4.5 million.

COURTENAY BAY GENERATING STATION

The Corporation has entered into a twenty year site lease agreement, expiring in 2021, with a five year option to extend, for lease of the existing site infrastructure to a third party to re-power an existing 100 MW unit to a 280 MW combined cycle natural gas unit.

The Corporation has also entered into a related twenty year power purchase and transmission access agreement, expiring in 2021, with a five year option to extend with the same third party. The Corporation will purchase all the electrical energy produced by the re-powered 280 MW combined cycle natural gas unit during the winter period, November 1 to March 31, and from time to time, some or all of the electrical energy produced during the summer period.

GAS TRANSPORTATION AGREEMENT

The Corporation has entered into a fifteen year agreement, expiring in 2015, for firm natural gas transportation service to the re-powered Courtenay Bay Generating Station. The cost of transportation will be recovered from the tenant referred to in the lease of the generating station.

FUEL SUPPLY TO DALHOUSIE GENERATING STATION

The Corporation has entered into a twenty year agreement to purchase Orimulsion® fuel for the Dalhousie Generating Station from 1990, continuing year to year thereafter unless terminated by either party.

18. CONTINGENCY

N.B. Coal has an ongoing environmental responsibility to treat acidic water drainage from an inactive mine. Ongoing cost of treatment is approximately $0.5 million per year.

19. COMPARATIVE FIGURES

Certain 2000 figures have been reclassified to conform with 2001 financial statement presentation.

STATEMENT OF GENERATION

(millions of KWh)	2000-2001	1999-2000	1998-1999	1997-1998	1996-1997
Hydro	2,373	3,018	2,696	2,357	2,860
Thermal	12,507	9,763	12,430	10,914	8,157
Nuclear	3,899	4,323	4,970	3,962	3,777
Combustion turbine	39	19	3	9	1
Purchases	2,092	4,712	2,568	3,148	3,908
GROSS GENERATION AND PURCHASES	20,910	21,835	22,667	20,390	18,703
Station service	1,086	985	1,092	1,004	904
NET GENERATION AND PURCHASES	19,824	20,850	21 575	19,386	17,799
Losses – transformer and transmission	603	688	663	627	677
TOTAL ENERGY AVAILABLE FOR DISTRIBUTION	19,221	20,162	20,912	18,759	17,122

STATEMENT OF SALES

(millions of KWh)	2000-2001	1999-2000	1998-1999	1997-1998	1996-1997
SALES					
Wholesale	1,171	1,126	1,069	1,091	1,094
Industrial	6,068	5,924	5,985	6,003	5,604
General service	2,111	2,093	2,036	2,049	2,065
Residential	4,587	4,371	4,387	4,510	4,506
Street lights	74	73	72	71	69
TOTAL IN-PROVINCE SALES	14,011	13,587	13,549	13,724	13,338
Interconnections	4,878	6,255	7,048	4,771	3,548
TOTAL SALES	18,889	19,842	20,597	18,495	16,886
Distribution losses	332	320	315	264	236
TOTAL ENERGY DISTRIBUTED AND SOLD	19,221	20,162	20,912	18,759	17,122

STATISTICAL OVERVIEW

STATEMENT OF SALES

(in $millions)	2000-2001	1999-2000	1998-1999	1997-1998	1996-1997
Wholesale	$ 73	$ 71	$ 68	$ 69	$ 69
Industrial	296	288	283	280	263
General service	178	176	170	168	163
Residential	364	340	335	336	315
Street lights	19	13	16	16	15
TOTAL IN-PROVINCE SALES	931	888	872	869	825
Interconnections	332	330	303	242	180
SALES OF POWER	1,263	1,218	1,175	1,111	1,005
Miscellaneous	48	30	29	29	32
TOTAL REVENUE	$1,311	$1,248	$1,204	$1,140	$1,037

STATEMENT OF IN-PROVINCE GENERATION

(millions of kWh)	2000-2001	1999-2000	1998-1999	1997-1998	1996-1997
Hydro	2,373	3,019	2,696	2,357	2,859
Coal and petroleum coke	4,762	3,677	3,065	3,291	3,375
Heavy fuel oil	1,232	1,796	3,114	3,496	1,976
Orimulsion®	1,781	1,830	1,509	1,699	1,550
Nuclear	3,987	3,980	4,558	3,640	3,479
Combustion turbine	12	4	1	4	1
Purchases	1,902	1,249	574	1,116	1,894
GROSS GENERATION AND PURCHASES	16,049	15,555	15,517	15,603	15,134
Station service	1,905	958	989	988	882
NET GENERATION AND PURCHASES	14,944	14,597	14,528	14,615	14,252
Losses - transformer and transmission	603	688	663	627	677
TOTAL ENERGY AVAILABLE FOR DISTRIBUTION	14,341	13,909	13,865	13,988	13,575

PEAK DEMAND AND CAPACITY

(MW)	2000-2001	1999-2000	1998-1999	1997-1998	1996-1997
System net generating capacity	3,920	4,119	4,119	4,119	4,111
Firm capacity purchases	347	349	349	49	49
TOTAL AVAILABLE RESOURCES	4,267	4,468	4,468	4,168	4,160
In-province system net peak demand	2,893	2,856	2,786	2,792	2,832
Firm exports	464	427	531	492	487
Operating reserve	644	629	684	684	687
TOTAL REQUIREMENT	4,001	3,912	4,001	3,968	4,006

OPERATING STATISTICS

March 31st	2000-2001	1999-2000	1998-1999	1997-1998	1996-1997
Transmission lines – km	6,706	6,660	6,660	6,660	6,660
Distribution lines – km	25,763	25,621	25,475	25,475	25,326
Residential customers	283,743	280,513	276,360	274,116	271,759
Industrial customers	1,851	1,847	1,834	1,832	1,764
General service customers	23,535	23,345	23,103	22,985	22,948
Non-metered customers	2,901	3,250	2,116	2,573	2,538
Direct customers	312,030	308,955	303,413	301,506	299,009
Indirect customers	41,694	41,678	40,673	40,589	40,541
TOTAL EMPLOYEES	353,724	350,633	344,086	342,095	339,550
Employees – regular	2,428	2,445	2,463	2,450	2,485
Employees – temporary	77	84	69	55	40
Employees – N.B. Coal Limited	101	102	103	103	101

INCOME STATEMENT SUMMARY

(in $millions)	2000-2001	1999-2000	1998-1999	1997-1998	1996-1997
In-province revenue	$931	$888	$872	$869	$825
Out-of-province revenue	332	330	303	242	180
Miscellaneous	46	30	29	29	32
Total fuel and purchases	401	395	374	404	332
Operations, maintenance and administration	309	315	277	258	266
Amortization and decommissioning	205	190	189	177	184
Finance charges	306	331	346	344	342
Income (loss) before transfers and write-off	(12)	17	18	(43)	(87)
Generation equalization transfer	–	–	–	–	33
Fuel channel account transfer	–	–	9	22	35
Income (loss) before write-off	(12)	17	27	(21)	(19)
Write off of deferred cost	–	–	450	–	–
Net income (loss)	$(12)	$ 17	$(423)	$ (21)	$ (19)
Interest coverage ratio[1]	.98x	1.06x	1.06x	.86x	.72x

1 Interest coverage ratio = [net income before transfers and write-off + (interest expense – income from sinking funds and other investments)] / (interest expense – income from sinking funds and other investments)

STATISTICAL OVERVIEW

BALANCE SHEET INFORMATION

March 31st (in $millions)	2000-2001	1999-2000	1998-1999	1997-1998	1996-1997
ASSETS					
Property, plant and equipment	$2,906	$2,997	$3,130	$3,252	$3,818
Long-term assets	–	17	56	70	57
Current assets	313	285	275	274	284
Deferred charges	251	166	205	601	134
TOTAL ASSETS	$3,470	$3,465	$3,666	$4,197	$4,293
LIABILITIES					
Long-term debt	$2,624	$2,578	$2,945	$3,075	$3,170
Current liabilities	584	628	501	483	450
Deferred liabilities	254	239	218	214	226
Equity	8	20	2	425	447
TOTAL LIABILITIES AND EQUITY	$3,470	$3,465	$3,666	$4,197	$4,293
Debt ratio[1]	100%	99%	100%	89%	89%

[1] Debt ratio = (debt) / (debt + equity), where debt = (long-term debt + short-term indebtedness + irradiated fuel management and plant decommissioning + fuel channel removal – cash and short-term investments – sinking fund investments)

FINANCIAL STATISTICS

(in $millions)	2000-2001	1999-2000	1998-1999	1997-1998	1996-1997
FINANCE COSTS					
Interest expense	$296	$324	$335	$338	$350
Income from sinking fund and other investments	(28)	(28)	(35)	(31)	(41)
Provincial Government guarantee fee	19	20	21	22	22
Amortization of deferred debt costs	4	5	4	4	4
Amortization of unrealized foreign exchange	16	12	22	12	10
Interest capitalized	(4)	(2)	(1)	(1)	(3)
NET FINANCIAL EXPENSE	$300	$ 331	$ 346	$344	$342
OTHER STATISTICS					
Rate increase*	3.0%	–	2.9%	2.9%	2.9%
CPI (New Brunswick)	3.3%	1.6%	0.6%	1.8%	1.5%
GDP increases (New Brunswick)	3.5%	4.2%	4.0%	0.4%	1.7%
Capital expenditures (millions)	$118	$ 95	$ 68	$ 61	$ 73
Change in total debt (millions)					
(net of sinking funds, cash and investments)	$(23)	$(234)	$(123)	$ (43)	$ (53)
% Breakdown of long-term debt:					
Canadian dollar	67%	69%	70%	71%	70%
US dollar	33%	31%	30%	29%	30%
Weighted average interest rate	8.4%	8.9%	9.1%	9.1%	9.1%

* Rate increase in 2000-2001 was for residential customers only.

NB Power's mandate is to provide for the continuous supply of energy adequate for the needs and future development of the Province and to promote economy and efficiency in the generation, distribution, supply, sale and use of power. NB Power's Board of Directors and management are committed to high standards of corporate governance and believe that a sound governance system will support the achievement of this mission. NB Power's current corporate governance practices are in line with the recommendations of a number of organizations that consider corporate governance matters, including the Toronto Stock Exchange (TSE Guidelines) and the Conference Board of Canada.

Mandate of the Board

The Board of Directors is specifically responsible for ensuring that the following are in place:

- a strategic planning process
- an appropriate system to identify and manage the principal risks to the business
- a succession plan for senior management
- a communication policy
- internal accounting and management information systems

Under the general direction of the Board, management is responsible for the operations of NB Power and may pursue approved strategic initiatives within the framework of authorized budgets and Corporate policies.

Composition and Independence of the Board

The Board of Directors consists of 10 members, all unrelated directors, in addition to the President and CEO who is an *ex-officio* member of the Board. Each director is required to sign an annual detailed declaration with respect to employment, business and personal relationships which would, or could reasonably be perceived to, interfere with their ability to act in the best interests of the Corporation. Occasionally, the Board and its committees hold *in camera* meetings without management present.

Committees of the Board

The Board of Directors has put in place systems and established committees to effectively oversee the principal risks of the business in which the Corporation is engaged. The following are descriptions of these committees, their mandates and activities. All committees report on their deliberations to the full Board at each of its regular meetings.

HUMAN RESOURCES AND CORPORATE GOVERNANCE COMMITTEE

The Human Resources and Corporate Governance Committee reviews the Corporation's human resources strategy, policies and programs. The Committee is also responsible for developing and monitoring the Corporation's approach to governance issues. The Committee reviews on an on going basis matters relative to senior executive succession planning, performance review and compensation.

AUDIT COMMITTEE

The Audit Committee is responsible for assessing the integrity of the Corporation's financial reporting, internal control and management information systems and audit processes. The Committee has direct communication with the Corporation's independent auditors and meets regularly with the auditors without management present. The Audit Committee is also responsible for monitoring the development and implementation of business risk management plans and control procedures.

ENVIRONMENT COMMITTEE

The Environment Committee is responsible to review and advise the Board on the suitability of and adherence to NB Power's Environmental Policy Statement. The Committee monitors the Environmental Management Programs within the Corporation. The Committee also reviews the Environmental Performance Report, a stand-alone report that outlines NB Power's environmental challenges and achievements. External auditors, through discussions and examinations, assess on an annual basis the completeness, valuation and disclosure of material environmental liabilities and contingencies in the Corporation's financial statements.

Meeting the Board Stewardship Role

To assist its members in meeting their stewardship roles, the Board has implemented guidelines defining the scope of Director duties and responsibilities. The Board also conducts an annual review of its effectiveness as a whole, a process co-ordinated by the Chair of the Human Resource and Corporate Governance Committee.

Management assists directors by providing them with updates at each regular meeting on developments affecting all areas in which the Corporation is active. New directors benefit from a formal orientation program providing them with current data pertaining to operations and issues facing the Corporation. Board meetings are periodically held at various field locations affording directors the opportunity to observe operations and meet employees.

The business objectives and key results, on which the President and CEO is measured, are set annually by the Board of Directors. The Board monitors and reviews the performance of the President and CEO on an annual basis.

Compliance with Applicable Corporate Governance Guidelines

With a view to continually enhancing the effectiveness of its approach to Corporate Governance, the Board of Directors has, during 2000-2001, focused its attention on the following areas:

- The Board reviewed management's long-range plans, programs, performance targets and budgets.
- The Board, through its Audit Committee, monitored the continued implementation of the Enterprise Risk Management Policy, a process to identify, assess, monitor and manage business risks across the organization in order to optimize business values and improve decision-making. The Audit Committee reviewed its terms of reference to ensure that these were aligned with best practices.
- The Environment Committee focused its attention on the implementation of environment management systems; environmental compliance audits; provincial environmental issues; facility re-licensing and environmental events; changes to environmental legislation; and emerging development issues.
- The Human Resource and Corporate Governance Committee ensured that due diligence was exercised relative to the health and safety of NB Power employees and the public. The Committee received regular reports relative to the health and safety compliance management system and the public safety program.
- Programs have been introduced to address succession planning at the senior levels of the Corporation.

MAX LEWIS

JEAN-MARC VIOLETTE

JAMES F. HANKINSON

LINO J. CELESTE

ALVIN BRUN

J.W. (JIM) PURCELL

RICHARD TINGLEY

BERNARD CYR

BARBARA S. BENDER, CA

PHILIPPE DESROSIERS

ROGER CLINCH

Board Committees

AUDIT COMMITTEE
The Audit Committee reviews corporate financial information, internal control systems and audit processes. Its members are: Lino Celeste (Chair), Max Lewis, Barbara Bender, Jean-Marc Violette and Philippe DesRosiers.

ENVIRONMENT COMMITTEE
The Environment Committee reviews environmental policies and protection programs. Its members are: Richard Tingley (Chair), Jim Purcell, Philippe DesRosiers, Roger Clinch and Jean-Marc Violette.

HUMAN RESOURCES AND CORPORATE GOVERNANCE COMMITTEE
The Human Resources and Corporate Governance Committee oversees corporate human resources strategy development and monitors governance issues. Its members are: Jim Purcell (Chair), Max Lewis, Lino Celeste, Alvin Brun and Bernard Cyr.

Board of directors

MAX LEWIS
CHAIRMAN
Mr. Lewis retired from the Provincial Government in 1996 after twenty-six years in the public service. He served as CEO of the New Brunswick Liquor Corporation, deputy minister of supply and services, and deputy minister of finance.

JEAN-MARC VIOLETTE
VICE-CHAIRMAN
Mr. Violette is a farmer and wood lot manager in St. Leonard and has been active in the agriculture sector. He has served on the Farm Debt Review and the Farm Development Boards.

JAMES F. HANKINSON
PRESIDENT AND CHIEF EXECUTIVE OFFICER
Mr. Hankinson has been president and chief executive officer of NB Power since 1996. He is a director of several Canadian companies including CAE Inc. and Maple Leaf Foods Inc.

LINO J. CELESTE
Mr. Celeste is a director on the board of Aliant Inc. and serves on the board of Manulife Financial Corporation. He also serves as chairman of the Saint John Foundation.

ALVIN BRUN
Mr. Brun was president and CEO of Enviro Industries and is now president and CEO of Kanalflakt, an international ventilation systems manufacturer. He has served on the Premier's Roundtable on the Environment and the Economy.

J.W. (JIM) PURCELL
Mr. Purcell is former executive vice-president and is currently a director of Ganong Brothers Ltd. and was formerly chairman of the Atlantic Health Sciences Corporation.

RICHARD TINGLEY
Mr. Tingley is former owner/operator of Tingley's Save Easy in Fredericton and is in private business. He is past chair of the board of governors of the University of New Brunswick, past chair of the Canadian Federation of Independent Grocers and past president of the Fredericton Chamber of Commerce.

BERNARD CYR
Mr. Cyr is owner of Cyr Holdings which operates the Chateau Moncton Hotel, develops commercial properties and operates various restaurants. Mr. Cyr is also owner and franchisor of the Dooly's group. He is a director of Assomption-Vie and serves as the president of the development committee for the Université de Moncton.

BARBARA S. BENDER, CA
Ms. Bender is vice-president of Spartan Systems in Saint John and has been executive director of the N.B. Institute of Chartered Accountants. She is director of the Public Service Pension Investment Board and serves on their audit committee. Ms. Bender is also the public representative on the NB College of Physicians and Surgeons.

PHILIPPE DESROSIERS
A vice-president of the National Bank, Mr. DesRosiers is responsible for retail, corporate and commercial banking in Atlantic Canada.

ROGER CLINCH
Mr. Clinch is a senior executive with Noranda in New Brunswick where he is responsible for communication and information services.

Net Generating Capacity

HYDRO	
Milltown	4 MW
Tobique	20 MW
Sission	9 MW
Grand Falls	66 MW
Beechwood	113 MW
Mactaquac	672 MW
Total Hydro	884 MW

NUCLEAR	
Point Lepreau	635 MW

COMBUSTION TURBINE	
Grand Manan	29 MW
Millbank	190 MW
Ste-Rose	100 MW
Total Combustion Turbine	327 MW

THERMAL	
Grand Lake	57 MW
Courtenay Bay	110 MW
Dalhousie	300 MW
Coleson Cove	1,004 MW
Belledune	458 MW
Total Thermal	1,929 MW